THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in NetDragon Websoft Inc., you should at once hand this circular and the accompanying proxy form to the purchaser(s) or transferee(s), or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO PROPOSED DISPOSAL OF 91 WIRELESS GROUP BY WAY OF MERGER AND PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

Anglo Chinese Corporate Finance, Limited

Capitalised terms used on this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 10 to 27 of this circular. A letter from the Independent Board Committee is set out on page 28 of this circular. A letter from Anglo Chinese containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 63 of this circular. A notice convening the EGM of the Company to be held at Unicorn and Phoenix Rooms, Basement Two, The Charterhouse Causeway Bay, 209-219 Wanchai Road, Wanchai, Hong Kong on Friday, 27 September 2013 at 3:00 p.m. is set out on pages 194 to 196 of this circular. A form of proxy for use at the EGM is enclosed herewith.

Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the accompanying proxy form to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM (or any adjournment thereof). Completion and return of the proxy form will not preclude you from attending and voting in person in the EGM (or any adjournment thereof) if you so wish.

11 September 2013

CONTENTS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

"91 Wireless"	91 Wireless Websoft Limited (91無綫網絡有限公司) (formerly known as 91 Limited or 九一無綫網絡有限公司), a limited liability company incorporated in the Cayman Islands, being an indirect non wholly-owned subsidiary and a connected person of the Company;
"91 Wireless Group"	91 Wireless and group companies, namely Talent Zone, Prestige Plus, Alpha Great, Keen City, BoYuan (Hong Kong), I-Wave, Jiangsu BoWang, Fuzhou BoYuan and Fujian BoDong. For the purpose of this circular, group companies also include Fujian BoRui;
"91 Wireless Share(s)"	the ordinary share(s) of US$0.0001 each in the share capital of 91 Wireless;
"Adverse Recommendation Change"	the failure to make, withdraw or modify by the 91 Wireless Group, in a manner which will be adverse to Baidu HK, the resolution of the board of directors of 91 Wireless to recommend the shareholders of 91 Wireless to vote in favour of the Merger Agreement and the Plan of Merger thereunder are in the interest of the shareholders of 91 Wireless (or recommend an acquisition proposal or take any action or make any statement inconsistent with the said resolution);
"Alpha Great"	Alpha Great International Limited (強領國際有限公司), a BVI company incorporated in the BVI on 25 October 2011, a subsidiary of 91 Wireless;
"Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1, 4, 6 and 9 regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Merger Agreement;
"associate(s)"	has the same meaning ascribed to it under the Listing Rules;
"Baidu HK"	Baidu (Hong Kong) Limited, a limited liability company incorporated under the laws of Hong Kong and a wholly owned subsidiary of Baidu, Inc.. Each of Baidu, Inc. and Baidu (Hong Kong) Limited is a third party independent of the Company and its connected persons. Baidu, Inc. is a company listed on NASDAQ, which offers a Chinese language Internet search platform on the Baidu.com website;

"Baidu Nominees"	nominees designated by Baidu HK as the transferees of the entire equity interests in Fujian BoRui from NetDragon (Fujian);
"Baidu Undertaking"	the deed of undertaking entered into by Baidu HK on 14 August 2013, the details of which are set out in the section headed "Baidu Undertaking" under the section headed "Letter from the Board of Directors";
"BoYuan (Hong Kong)"	BoYuan (Hong Kong) Wireless Websoft Technology Limited (博遠(香港)無綫網絡科技有限公司), a company incorporated in Hong Kong on 18 November 2011, a subsidiary of 91 Wireless;
"Board"	the board of Directors;
"Break-Up Fee"	US$50 million (equivalent to approximately HK$387.90 million), which was paid to NetDragon BVI on 18 July 2013 pursuant to the Memorandum of Understanding;
"Business Day"	a day, other than Saturday, Sunday or other day on which commercial banks in Cayman Islands, Hong Kong and the PRC are authorized or required by applicable law to close;
"BVI"	the British Virgin Islands;
"Closing"	closing of the Merger Agreement;
"Closing Date"	the date of the Closing;
"CICL"	the Companies Law (2012 Revision) (as amended) of the Cayman Islands;
"Chairman"	chairman of the Board;
"Company"	NetDragon Websoft Inc., an exempted company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Main Board of the Stock Exchange;
"Conditions Precedent"	the conditions precedent to the Merger Agreement, as more particularly described in the paragraph headed "The Merger Agreement - (d) Conditions Precedent" under the section headed "Letter from the Board of Directors";
"connected person(s)"	has the same meaning ascribed to it under the Listing Rules;
"controlling shareholders"	have the same meaning ascribed to it under the Listing Rules;

"Damages"	damage, loss, liability and expense (including reasonable attorneys' fees and expenses in connection with any action, suit or proceeding whether involving a third-party claim or a claim solely between the parties);
"Dealings Agreement"	any agreement or arrangement or any obligation incurred (i) to do any of the acts referred to in sub-paragraphs (f) (A) or (B) of the section headed "The Deeds of Undertaking — ND Deed of Undertaking" under the section headed "Letter from the Board of Directors"; (ii) in relation to, or operating by reference to, the Relevant 91 Wireless Shares; or (iii) which, in relation to the Relevant 91 Wireless Shares, would or could be reasonably expected to restrict or impede the Merger;
"Deed(s) of Undertaking"	the ND Deed of Undertaking and the Deeds of Undertaking entered into by the Other 91 Shareholders on 14 August 2013, the details of which are set out in the paragraph headed "The Deeds of Undertaking — Deeds of Undertaking of the Other 91 Shareholders" under the section headed "Letter from the Board of Directors";
"Disposal"	the disposal of the issued share capital of 91 Wireless pursuant to the Transaction Documents;
"Dissenting Shares"	91 Wireless Shares that are issued and outstanding immediately prior to the Effective Time and that are held by shareholders of 91 Wireless who shall have validly exercised and not effectively withdrawn or lost their rights to dissent from the Merger in accordance with the CICL;
"Director(s)"	Director(s) of the Company;
"Effective Time"	the time on which the Merger becomes effective as set out in the Plan of Merger in accordance with CICL;
"EGM"	the extraordinary general meeting of the Company to be held at Unicorn and Phoenix Rooms, Basement Two, The Charterhouse Causeway Bay, 209-219 Wanchai Road, Wanchai, Hong Kong on Friday, 27 September 2013 at 3:00 p.m. or any adjournment thereof (as the case may be), notice of which is set out on pages 194 to 196 of this circular;
"Eligible 91 Shareholders"	the shareholders of 91 Wireless other than the holders of the Dissenting Shares;
"Eligible Participant(s)"	have the meaning ascribed to it under the Share Option Scheme
"End Date"	have the same meaning ascribed thereto in the paragraph headed "The Merger Agreement - (g) Termination of the Merger Agreement" under the section headed "Letter from the Board of Directors";

"Equity Interests Transfer Agreements"	the agreements entered into by NetDragon (Fujian), the Baidu Nominees, and Fujian BoRui dated 14 August 2013, pursuant to which 100% equity interests of Fujian BoRui shall be transferred to the Baidu Nominees;
"Escrow Account"	an account maintained by the Escrow Agent;
"Escrow Agent"	an escrow agent to be mutually agreed by Baidu HK, NetDragon BVI and the Company;
"Escrowed Amount"	US$10 million (equivalent to approximately HK$77.58 million), which Baidu HK shall pay to the Escrow Agent and to be released to NetDragon BVI pursuant to the terms and conditions set out in the Deed of Undertaking executed by NetDragon BVI and an escrow agreement to be entered into among Baidu HK and NetDragon BVI;
"Fujian BoDong"	福建博動文化傳播有限公司(Fujian BoDong Cultural and Communications Co., Ltd.*), an enterprise established in the PRC on 27 December 2011, a subsidiary of 91 Wireless;
"Fujian BoRui"	福建博瑞網絡科技有限公司(Fujian BoRui Websoft Technology Co., Ltd.*), an enterprise established in the PRC on 18 March 2011, a subsidiary of 91 Wireless;
"Fuzhou BoYuan"	福州博遠無綫網絡科技有限公司(Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.*), a wholly foreign-owned enterprise established under the laws of the PRC on 6 September 2010, a subsidiary of 91 Wireless;
"GEM"	the Growth Enterprise Market on the Stock Exchange of Hong Kong Limited;
"Governmental or Regulatory Authority"	any nation or government or any province or state or any other political subdivision thereof, or any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization and any stock exchange (including the Stock Exchange);
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;

"I-Wave"	I-Wave Wireless Limited (愛威無線有限公司), a company incorporated in Hong Kong on 29 June 2012, a subsidiary of 91 Wireless;
"IDG Group"	IDG Technology Venture Investments, L.P. and the IDG Investors, which in aggregate holds approximately 15.34% shareholding interest in the Company and therefore being the Company's substantial shareholder under the Listing Rules;
"IDG Investors"	IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P.;
"Indemnified Parties"	Baidu HK and Merger Sub, and, after the Effective Time, the Surviving Corporation, their respective successors and permitted assignees, and their respective officers, directors and employees;
"Indemnified Events"	(1) any breach on the part of 91 Wireless of any provision of the Merger Agreement; (2) any of the undertakings, covenants, warranties and representations provided by 91 Wireless in respect of 91 Wireless Group as set out under the Merger Agreement being untrue, inaccurate or misleading in any respect or having been breached in any respect; and (3) any breach by NetDragon BVI or the Company of the ND Deed of Undertaking;
"Independent Board Committee"	the committee of the independent non-executive Directors, comprising Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas, established to give recommendation to the Independent Shareholders in respect of the Merger;
"Independent Shareholders"	Shareholders other than those who have material interest in the Merger Agreement and the transactions contemplated thereunder;
"Jiangsu BoWang"	江蘇博望網絡科技有限公司 (Jiangsu BoWang Websoft Technology Ltd.*), a wholly foreign-owned enterprise incorporated in the PRC on 25 June 2012, a subsidiary of 91 Wireless;
"Keen City"	Keen City Holdings Limited (鷹威控股有限公司), a company incorporated in Hong Kong on 15 September 2011, a subsidiary of 91 Wireless;
"Law"	any constitutional provision, stature or other law, rule, regulation, official policy or interpretation of any Government or Regulatory Authority;

"Latest Practicable Date"	10 September 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Management Shareholders"	the 1ist of employees of the 91 Wireless Group as set out in the Management Deferred Payment Agreement;
"Management Deferred Payment Amount"	25% of the Merger Consideration to which the Management Shareholders are entitled, which shall become payable to Management Shareholders at the first and second anniversary of the Effective Time, in accordance with the terms and conditions of the Management Deferred Payment Agreement;
"Management Deferred Payment Agreement"	the agreement to be entered into by and among Baidu HK, 91 Wireless and Management Shareholders on or prior to Closing, reflecting the payment arrangement of the Management Deferred Payment Amount;
"Material Adverse Effect"	a material adverse effect on the condition (financial or otherwise), results of operations, business, properties or prospects of the 91 Wireless Group taken as a whole, or on the ability of any of the companies of the 91 Wireless Group to carry out their respective obligations under the Transaction Documents;
"Memorandum of Understanding"	the memorandum of understanding dated 15 July 2013 entered into by the Company, NetDragon BVI and Baidu Holdings Limited in relation to the proposed disposal of the 91 Wireless Group by the Company;
"Merger"	the merger of Merger Sub into 91 Wireless upon and subject to the terms and conditions of the Merger Agreement;
"Merger Agreement"	the agreement and Plan of Merger dated 14 August 2013 entered into among 91 Wireless, Baidu HK and Merger Sub;
"Merger Consideration"	US$1,847.94 million (equivalent to approximately HK$14,336.09 million);
"Merger Sub"	Baidu (Hong Kong) Sub Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on 1 August 2013 and is a wholly-owned subsidiary of Baidu HK;

"ND Deed of Undertaking"	the Deed of Undertaking dated 14 August 2013, entered into by NetDragon BVI and the Company, the details of which are set out in the paragraph headed "The Deeds of Undertaking — ND Deed of Undertaking" under the section headed "Letter from the Board of Directors";
"NetDragon BVI"	NetDragon Websoft Inc., a limited liability company incorporated in the British Virgin Islands, being a direct wholly-owned subsidiary of the Company and a shareholder of 91 Wireless;
"NetDragon (Fujian)"	福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.*), formerly known as 福州網龍計算機網絡信息技術有限公司 (Fuzhou NetDragon Websoft Co., Ltd.*), a company established in the PRC with limited liability on 25 May 1999, a deemed subsidiary of the Group;
"Onshore Closing Payment Amount"	the amount of RMB570 million (equivalent to about US$93 million) agreed by Baidu HK and 91 Wireless, being the consideration payable to NetDragon (Fujian) for acquiring the entire equity interests in Fujian BoRui;
"Order"	any injunction, judgment, decree, order, ruling, assessment or writ of any Governmental or Regulatory Authority;
"Other 91 Shareholders"	shareholders of 91 Wireless other than NetDragon BVI, who are willing to enter into the Deeds of Undertaking in contemplation of the Merger;
"Paying Agent"	the paying agent to be mutually agreed by Baidu HK and 91 Wireless, who acts as the payment agent for all payments of the Merger Consideration;
"Per Share Merger Consideration"	US$13.168 in cash per 91 Wireless Share without interest;
"Plan of Merger"	the plan of merger as appended in the Merger Agreement
"PRC"	the People's Republic of China, for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
"Prestige Plus"	Prestige Plus Holdings Limited (增譽控股有限公司), a BVI business company incorporated under the laws of the British Virgin Islands on 20 September 2011, a subsidiary of 91 Wireless;
"Proposed Listing"	the proposed listing of 91 Wireless on the GEM;

"Proposed Spin-off"	the proposed listing of 91 Wireless on the GEM, by way of a distribution in specie of certain 91 Wireless Shares after the capitalization issue as contemplated under the Proposed Listing;
"Post Conversion Co-sale Agreement"	the amended and restated right of first refusal and co-sale agreement dated 27 March 2013, entered into among 91 Wireless, NetDragon BVI, the Series A Investors and the Series B Investors;
"Post Conversion Shareholders' Agreement"	the amended and restated shareholders' agreement dated 27 March 2013, entered into among 91 Wireless, Talent Zone, Fuzhou BoYuan, Fujian BoRui, NetDragon BVI, the Series A Investors and the Series B Investors;
"Relevant 91 Wireless Shares"	80,571,528 91 Wireless Shares, the registered holder of which is NetDragon BVI;
"Requisite Company Vote"	have the same meaning ascribed thereto in the paragraph headed "The Merger Agreement — (e) 91 Wireless shareholders' approval and filing of the Plan of Merger" under the section headed "Letter from the Board of Directors";
"Remaining Group"	the Group following the Effective Time;
"Restricted Business"	(1) the development, distribution and provision of smartphone app(s) that are of a similar nature to 91 助手(91 Assistant*), 91桌面(91 Launcher*), 91 熊貓看書(91 Panda Reader*) and 安卓市場 (HiMarket*); and (2) the distribution and operation of third-party smartphone games which are similar in nature to such smartphone games under 91 助手(91 Assistant*) and 安卓市場(HiMarket*);
"Series A Investors"	IDG Investors and Stonewell Resources Limited;
"Series B Investors"	Vertex Asia Investments Pte. Ltd, IP Cathay II, L.P., DT Capital China Growth Fund, L.P., NetDragon BVI, the IDG Investors, Sino Coast Developments Limited, Pacific Century Diversified Limited, Grandwin Enterprises Limited and an individual investor;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	the ordinary share(s) of USD0.01 each in the capital of the Company;
"Shareholder(s)"	the holder(s) of the Share(s);
"Share Option Scheme"	the share option scheme of the Company adopted by resolution of the Shareholders on 12 June 2008

"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Structured Contracts"	(1) the cooperation framework agreement dated 30 May 2011 between Fujian BoRui and Fuzhou BoYuan; (2) the technical consultancy and service agreement dated 30 May 2011 between Fujian BoRui and Fuzhou BoYuan; (3) the equity interest pledge agreement in respect of the equity interest of Fujian BoRui dated 30 May 2011 between Fujian BoRui, Fuzhou BoYuan and NetDragon (Fujian); (4) the agreement for the exclusive right to acquire equity interest and assets of Fujian BoRui between Fujian BoRui, Fuzhou BoYuan and NetDragon (Fujian); and (5) the voting rights proxy agreement in respect of the equity interest of Fujian BoRui dated 30 May 2011) between Fujian BoRui, Fuzhou BoYuan and NetDragon (Fujian);
"Structured Contracts Termination Agreement"	the agreement to terminate the Structured Contracts, the form of which is annexed to the Merger Agreement;
"Surviving Corporation"	have the meaning ascribed thereto in the section headed "The Merger Agreement — (a) The Merger" under the section headed "Letter from the Board of Directors";
"Surviving Group"	Surviving Corporation, its subsidiaries and/or controlled entities;
"Talent Zone"	Talent Zone Holdings Limited, a limited liability company incorporated in Hong Kong on 19 February 2010 and a subsidiary of 91 Wireless;
"Transaction Documents"	collectively, the Merger Agreement, the Plan of Merger, the Equity Interests Transfer Agreements, the Structured Contracts Termination Agreement and the Management Deferred Payment Agreement;
"Undertaking Conditions"	the conditions to certain undertakings and obligations of the Company and NetDragon BVI under the ND Deed of Undertaking, having meaning ascribed thereto in the paragraph headed "The Deeds of Undertaking — ND Deed of Undertaking" under the section headed "Letter from the Board of Directors";
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of the PRC;
"USD" or "US$"	US dollars, the lawful currency of the United State of America;
"%"	per cent.

** for identification purpose*

For the purpose of this circular, unless otherwise indicated, the exchange rates at US$1 = HK$7.7579 and RMB1 = HK$1.27 have been used, where applicable, for the purpose of illustration only and not constitute a representation that any amount have been, could have been or may be exchanged.

NetDragon Websoft Inc.
網龍網絡有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 777)

Executive Directors:
Liu Dejian *(Chairman)*
Liu Luyuan
Zheng Hui
Chen Hongzhan

Non-executive Director:
Lin Dongliang

Independent non-executive Directors:
Chao Guowei, Charles
Lee Kwan Hung
Liu Sai Keung, Thomas

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

Head office and principal place of business in Hong Kong:
Unit No. 2209
22nd Floor West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

11 September 2013

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO PROPOSED DISPOSAL OF 91 WIRELESS GROUP BY WAY OF MERGER AND PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

INTRODUCTION

On 15 July 2013, the Company, NetDragon BVI and Baidu Holdings Limited entered into the legally binding Memorandum of Understanding pursuant to which, among other things, NetDragon BVI and Baidu Holdings Limited shall negotiate in good faith and use their respective reasonable endeavours to effect the acquisition of (i) 90% or more of the issued share capital of 91 Wireless; and/or (ii) all business and assets of the 91 Wireless Group by Baidu Holdings Limited.

On 16 August 2013, the Company announced that on 14 August 2013, 91 Wireless, Baidu HK and Merger Sub entered into the Merger Agreement pursuant to which, among other things, Merger Sub will merge with and into 91 Wireless at the Effective Time, with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK as a result of the Merger. The aggregate consideration receivable by the Company under the Merger will be about US$1,060.97 million (equivalent to approximately HK$8,230.87 million).

In contemplation of the Merger, the Company and NetDragon BVI have entered into the ND Deed of Undertaking on 14 August 2013, pursuant to which, among other things, the Company and NetDragon BVI have jointly and severally undertaken to Baidu HK and Merger Sub, subject to the terms and conditions therein and the Undertaking Conditions, to vote, or to cause the registered holder of the Relevant 91 Wireless Shares to vote, in favour of the approval of the Merger Agreement and the transactions contemplated under the Merger Agreement at the extraordinary general meeting of 91 Wireless.

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

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

The Merger constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. As the IDG Investors are members of the IDG Group which is a substantial shareholder of the Company and is entitled to exercise 10% or more of voting power at a general meeting of 91 Wireless, 91 Wireless is regarded as a connected person of the Company under Rule 14A.11(5) of the Listing Rules. Accordingly, the Merger also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to the approval of the Independent Shareholders at the EGM.

In addition, it is proposed that, subject to the approval of the Shareholders, certain provisions of the Share Option Scheme are to be amended. Pursuant to note (2) to Rule 17.03(18) of the Listing Rules, any alterations to the terms of the Share Option Scheme which are of a material nature must be approved by the Shareholders, unless where the alterations take effect automatically under the existing terms of the Share Option Scheme. As the proposed amendment will not take effect automatically under the existing terms of the Share Option Scheme, resolutions will be proposed to the Shareholders to amend the terms of the Share Option Scheme.

The purpose of this circular is to provide you with, among other things, (i) details of the Merger Agreement and the Deeds of Undertaking; (ii) the details of the proposed amendments to the Share

Option Scheme; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iv) the financial information of 91 Wireless and the Remaining Group; (v) the letter of advice from Anglo Chinese to the Independent Board Committee and the Independent Shareholders; and (vi) the notice of the EGM together with the form of proxy.

THE MERGER AGREEMENT

Date: 14 August 2013

Parties:

(i) 91 Wireless;

(ii) Baidu HK; and

(iii) Merger Sub.

To the best of the knowledge, information and belief of the Board and having made all reasonable enquiries, Baidu HK, Merger Sub and their respective ultimate beneficial owners are third parties independent of and not connected with the Company, 91 Wireless and their respective connected persons.

The following is a summary of the principal terms and conditions of the Merger Agreement:

(a) **The Merger**

Subject to the terms and subject to the conditions of the Merger Agreement and in accordance with the CICL, Baidu HK and 91 Wireless shall enter into a business combination transaction pursuant to which Merger Sub will merge with and into 91 Wireless at the Effective Time, with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK. As at the Effective Time, the corporate existence of Merger Sub will cease and 91 Wireless will continue as the surviving corporation of the Merger (the "**Surviving Corporation**"). At the Effective Time, the Company will cease to hold any interest in 91 Wireless and each member of the 91 Wireless Group shall cease to be a subsidiary of the Company.

(b) **Consideration**

According to the Memorandum of Understanding, the Merger Consideration was determined at an aggregate amount of US$1,900 million (equivalent to approximately HK$14,740 million). Subject to the completion of the Disposal, a special dividend of approximately US$52.06 million (equivalent to approximately HK$403.91 million) will be distributed to the existing shareholders of 91 Wireless on pro rata basis. As such, the Merger Consideration is adjusted to an aggregate amount of US$1,847.94 million (equivalent to approximately HK$14,336.09 million). Subject to the Merger becoming effective, each Eligible 91 Shareholder will be entitled to receive the Merger Consideration based on their respective shareholdings in 91 Wireless.

The Merger Consideration and the Per Share Merger Consideration of US$13.168 in cash per 91 Wireless Share were arrived at after arm's length negotiations between NetDragon BVI and Baidu HK and taking into account factors including but not limited to the value of the members of 91 Wireless Group registered and operated outside of the territory of the PRC, compensation for the termination of the Proposed Spin-off and Proposed Listing, compensation for the non-competition undertakings provided by NetDragon BVI and the Company under the ND Deed of Undertaking and the compensation in relation to the potential special dividend distribution of the Company following the consummation of the Merger.

As at the Latest Practicable Date, (i) 140,335,556 91 Wireless Shares were issued and outstanding, and (ii) 80,571,528 91 Wireless Shares were held by NetDragon BVI, which constituted approximately 57.41% of the issued share capital of 91 Wireless. Accordingly, the aggregate consideration receivable by the Company under the Merger will be approximately US$1,060.97 million (equivalent to approximately HK$8,230.87 million).

Subject to the completion of the exchange procedures set out in paragraph headed "The Merger Agreement — (c) Exchange procedures" below, based on the terms of the Merger Agreement, the consideration receivable by the Company from the Paying Agent under the Merger, after the Effective Time, shall be equal to the product of:

(A1) X (B1) — (C1) — (D1) — (E1)

Where,

(A1) = Per Share Merger Consideration

(B1) = 91 Wireless Shares (other than the Dissenting Shares) held by NetDragon BVI as shown against the name of NetDragon BVI in the register of members of 91 Wireless

(C1) = Break-Up Fee, which has been paid in full to NetDragon BVI on 18 July 2013

(D1) = the Onshore Closing Payment Amount, which will be paid to NetDragon (Fujian) in accordance with the Equity Interests Transfer Agreements

(E1) = Escrowed Amount, which shall be paid to the Escrow Agent and released to NetDragon BVI after expiry of eighteen (18) months from the Effective Time pursuant to the terms and conditions set out in the ND Deed of Undertaking and an escrow agreement to be entered into among Baidu HK and NetDragon BVI

Other shareholders of 91 Wireless are entitled to the Per Share Merger Consideration of US$13.168 on similar terms as NetDragon BVI, except that the Management Shareholders will receive the Management Deferred Payment Amount only on the first and second anniversary of the Effective Time respectively pursuant to the terms and conditions of the Management Deferred Payment Agreement.

The Directors consider that the Merger Consideration is fair and reasonable by reference to the market value and the industrial growth of 91 Wireless Group.

(c) **Exchange procedures**

Promptly after the Effective Time and in any event no later than the Business Day following the Effective Time, Baidu HK shall deposit with the Paying Agent cash in an amount sufficient to pay the Merger Consideration, save for (i) the Break-up Fee; (ii) the Onshore Closing Payment Amount; and (iii) the Escrowed Amount. Each shareholder of 91 Wireless will receive from the Paying Agent the payment of the relevant Merger Consideration he/she is entitled to for the Merger upon the surrender to the Paying Agent, among other things, the letter of transmittal and the certificates of the 91 Wireless Shares (and/or such other documents as may be required pursuant to the instructions of the Paying Agent).

(d) **Conditions Precedent**

(1) The obligations of the parties to the Merger Agreement to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following conditions:

(i) the approval on the Merger Agreement, the Plan of Merger and the Merger by the shareholders of 91 Wireless in the manner referred to in paragraph (e) headed "91 Wireless shareholders' approval" below;

(ii) no provision of any applicable Law or Order prohibiting the consummation of the Merger or making the Merger illegal; and

(iii) all actions by or in respect of or filings with any Governmental or Regulatory Authority required to permit the consummation of the Merger having been taken, made or obtained.

As at the Latest Practicable Date, 91 Wireless does not have the intention to waive the satisfaction of Conditions Precedent (1)(i) to (iii) above.

(2) The obligations of Baidu HK and Merger Sub to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(i) the representations and warranties of 91 Wireless contained in the Merger Agreement or in any certificate or other writing delivered by 91 Wireless (A) that are qualified by materiality or Material Adverse Effect remaining true at and as of the Closing Date as if made at and as of such date, and (B) that are not qualified by materiality or Material Adverse Effect remaining true in all material respects at and as of the Closing Date as if made at and as of such time;

(ii) 91 Wireless having performed or complied in all material respects with all agreements and covenants required by the Merger Agreement to be performed or complied with by it on or prior to the Closing;

(iii) 91 Wireless having delivered to Baidu HK a certificate, dated the Closing Date, signed by chief executive officer of 91 Wireless, certifying as to the satisfaction of the conditions specified in the above sub-paragraphs (i) and (ii);

(iv) no Material Adverse Effect having occurred or having been continuing since the date of the Merger Agreement;

(v) each of the parties to the Transaction Documents, other than Baidu HK and Merger Sub, having executed and delivered such Transaction Documents to Baidu HK;

(vi) NetDragon (Fujian), the Baidu Nominees and Fujian BoRui having duly entered into the Equity Interests Transfer Agreements and 91 Wireless having delivered to Baidu HK and Merger Sub documents evidencing the filing with the relevant Governmental or Regulatory Authority in relation thereto;

(vii) 91 Wireless having delivered to Baidu HK and Merger Sub the employment agreements, confidentiality agreements, non-compete agreements and intellectual property assignment agreements with the key employees of 91 Wireless Group in substantially the forms to the reasonable satisfaction of Baidu HK;

(viii) the business contracts as set out in the Merger Agreement, (A) having duly terminated to the reasonable satisfaction of Baidu HK; and (B) having been duly amended in substantially the forms to the reasonable satisfaction of Baidu HK;

(ix) 91 Wireless having delivered to Baidu HK and Merger Sub reasonable evidence to the satisfaction of Baidu HK of the termination of the Post Conversion Co-sale Agreement and the Post Conversion Shareholders' Agreement which shall take effect immediately upon the Effective Time;

(x) 91 Wireless having delivered to Baidu HK and Merger Sub the audited financial statements for the two years ended 31 December 2012 and the three-month period ended 31 March 2013;

(xi) 91 Wireless having delivered to Baidu HK and Merger Sub an opinion from its PRC legal advisers in substantially the form provided in the Merger Agreement;

(xii) 91 Wireless having delivered to Baidu HK and Merger Sub an opinion from its Cayman Islands legal advisers in substantially the form provided in the Merger Agreement;

(xiii) 91 Wireless having delivered to Baidu HK and Merger Sub duly signed resignations, effective as of the Effective Time, of the directors of 91 Wireless designated by Baidu HK; and

(xiv) holders of at least 90% of the issued share capital of 91 Wireless having entered into the Deeds of Undertaking in substantially the form provided in the Merger Agreement.

Condition Precedent (2)(ix) cannot be waived by the parties to the Merger Agreement. As at the Latest Practicable Date, 91 Wireless does not have the intention to waive the satisfaction of Conditions Precedent (2)(i) to (viii) and (x) to (xiii) above, while Condition Precedent (2)(xiv) has been fulfilled as shareholders of at least 90% of the issued share capital of 91 Wireless have entered into the Deeds of Undertaking on 14 August 2013.

(3) The obligations of 91 Wireless to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(i) the representations and warranties of Baidu HK and Merger Sub contained in the Merger Agreement or in any certificate or other writing delivered by Baidu HK and Merger Sub (A) that are qualified by materiality or Material Adverse Effect remaining true at and as of the Closing Date as if made at and as of such date, and (B) that are not qualified by materiality or Material Adverse Effect remaining true in all material respects at and as of the Closing Date as if made at and as of such time;

(ii) Baidu HK and Merger Sub having performed or complied in all material respects with all agreements and covenants required by the Merger Agreement to be performed or complied with by them on or prior to the Closing, the Effective Time and/or thereafter as provided in the Merger Agreement;

(iii) the approval by the Shareholders of the resolution in relation to, inter alia, the Merger Agreement, the ND Deed of Undertaking and all transactions contemplated thereunder at the EGM having been obtained; and

(iv) the Company having complied with and to the satisfaction of the Stock Exchange and other relevant regulatory authorities all requirements under the Listing Rules and/or the SFO in relation to the Merger and other transactions contemplated thereunder.

Conditions Precedent (3)(iii) to (iv) cannot be waived by the parties to the Merger Agreement. As at the Latest Practicable Date, 91 Wireless does not have the intention to waive the satisfaction of Conditions Precedent (3)(i) to (ii) above.

(e) **91 Wireless shareholders' approval and filing of the Plan of Merger**

In accordance with the CICL and the memorandum and articles of association of 91 Wireless, the approval on the Merger Agreement, the Plan of Merger and the Merger will be subject to the affirmative consent of holders of 91 Wireless Shares representing at least three-fourths (3/4th) of the 91 Wireless Shares at the shareholders' meeting of 91 Wireless (the "**Requisite Company Vote**").

On the Closing Date, Merger Sub and 91 Wireless will execute the Plan of Merger and file the Plan of Merger and other documents required under CICL to effect the Merger with the Registrar of Companies of the Cayman Islands in accordance with the CICL. The Merger shall become effective as of the Effective Time.

(f) **Termination of Application of the Proposed Listing**

Upon Closing, 91 Wireless shall forthwith terminate its application for the Proposed Listing.

(g) **Termination of the Merger Agreement**

The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time whether the Requisite Company Vote has been obtained:

(1) by mutual written agreement of 91 Wireless and Baidu HK;

(2) by either 91 Wireless or Baidu HK, if:

(i) the Merger has not been consummated on or before 31 December 2013 (the "**End Date**"); provided that the right to terminate the Merger Agreement shall not be available to any party whose breach of any provision of the Merger Agreement results in the failure of the Merger to be consummated by such time;

(ii) there shall be any Law or Order that (A) makes consummation of the Merger illegal or otherwise prohibited or (B) enjoins 91 Wireless or Baidu HK from consummating the Merger and such injunction shall have become final and non-appealable; or

(iii) the Post Conversion Co-sale Agreement and the Post Conversion Shareholders' Agreement have not been effectively terminated in accordance with their respective terms by the End Date; or

(3) by Baidu HK, if an Adverse Recommendation Change shall have occurred, or if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of 91 Wireless set forth in the Merger Agreement shall have occurred that would cause the condition set forth in sub-paragraph (2)(i) of the paragraph headed "The Merger Agreement — (d) Conditions Precedent" above not to be satisfied, and such condition is incapable of being satisfied by the End Date; or

(4) by 91 Wireless, if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Baidu HK or Merger Sub set forth in the Merger Agreement shall have occurred that would cause the condition set forth in the sub-paragraph (3)(i) of the paragraph headed "The Merger Agreement — (d) Conditions Precedent" above not to be satisfied, and such condition is incapable of being satisfied by the End Date; or

(5) by 91 Wireless, if the Shareholders' approval at the EGM for approving, among other, the Merger Agreement, the ND Deed of Undertaking and all transactions contemplated thereunder shall not have been obtained.

If the Merger Agreement is terminated as a result of the (i) willful failure of either party to fulfill a condition to the performance of the obligations of the other party, (ii) failure to perform a covenant of the Merger Agreement or (iii) breach by either party hereto of any representation or warranty or agreement contained in the Merger Agreement, such party shall be fully liable for any and all damages incurred or suffered by the other party as a result of such failure or breach.

THE DEEDS OF UNDERTAKING

ND Deed of Undertaking

In contemplation of the Merger, the Company and NetDragon BVI have entered into the ND Deed of Undertaking on 14 August 2013, pursuant to which, among other things, the Company and NetDragon BVI have jointly and severally undertaken to Baidu HK and Merger Sub, subject to the terms and conditions therein:

(a) at the extraordinary general meeting of 91 Wireless, (i) to vote, or to cause the registered holder of the Relevant 91 Wireless Shares to vote, in favor of (A) the approval of the Merger Agreement and the transactions contemplated under the Merger Agreement, and (B) any related matter for the completion of the transactions contemplated by the Merger Agreement; and (ii) not to, or to cause the registered holder of the Relevant 91 Wireless Shares not to, vote in favour of, and will vote against, any resolutions approving (A) any transaction which is similar in nature or has the same effect as the transactions contemplated under the Merger Agreement, (B) the issue and distribution of shares or securities by 91 Wireless Group and its controlled entities or (C) application for listing on any internationally recognized stock exchange or issue of listing document by 91 Wireless, without the prior written consent of Baidu HK and Merger Sub;

(b) for a period up to and including 31 March 2015, on an after taxation basis, to indemnify each of the Indemnified Parties against and agree to hold each of such Indemnified Parties harmless from any and all the Damages incurred and suffered by any Indemnified Parties or any of their respective successors and permitted assignees arising out of the Indemnified Events, provided that (i) the Company and NetDragon BVI shall not be liable for any such claim unless the aggregate amount of Damages exceeds US$1 million, in which case the Company and NetDragon BVI shall be liable for all such Damages within such threshold, and (ii) the amount of the aggregate Damages shall be subject to the maximum amount of US$300 million;

(c) not to and procure the subsidiaries and/or controlled entities of the Company and NetDragon BVI not to, for a period of two (2) years from the consummation of the Merger, carry on or acquire, hold or be otherwise beneficially interested in 50% or more equity interests in any business which is in competition with the business of the Surviving Group, namely the Restricted Business;

(d) provided that Baidu HK uses its reasonable endeavours to procure satisfaction of the Conditions Precedent but Closing does not occur for any reason which is not attributable to the fault of Baidu HK, to return promptly or procure the return of the full amount of the Break-Up Fee to Baidu HK and in any event within three days after the End Date; and upon Closing, the Break-Up Fee will be treated as part of the consideration that NetDragon BVI is entitled to receive for the Merger;

(e) to procure the satisfaction of the Conditions Precedent set forth in sub-paragraph (d)(2) of the sub-section headed "The Merger Agreement" in this section by 91 Wireless; and

(f) during the period commencing from the date when the Merger Agreement taking effect and continuing until the Effective Time or the termination of the Merger Agreement, whichever is earlier, not to, without the prior written consent from Baidu HK and Merger Sub, (A) transfer, charge, encumber, grant any option over or otherwise dispose of any Relevant 91 Wireless Shares; (B) accept any offer made by a third party in respect of the Relevant 91 Wireless Shares; (C) other than pursuant to the Merger, enter into any Dealings Agreement or permit any Dealings Agreement to be entered into or incur any such obligation; or (D) purchase, sell or otherwise deal in the Relevant 91 Wireless Shares.

The Company and NetDragon BVI have also acknowledged and agreed that the Escrowed Amount shall be deposited, promptly after the Effective Time and in any event no later than the Business Day following the Effective Time, by Baidu HK into the Escrow Account. Notwithstanding the foregoing, the Company and NetDragon BVI further agreed that, in the event that the Indemnified Parties shall be liable for any Damages arising out of or in connection with the basis of determination of the Merger Consideration as set out in the Merger Agreement, Baidu shall be entitled to receive such amount out of the Escrowed Amount in order to compensate Baidu HK for suffering such Damages, provided that any money remaining in the Escrow Account at the expiry of eighteen (18) months from the Effective Time shall be released to NetDragon BVI.

The undertakings set forth in the sub-paragraphs (a), (b) and (c) above are subject to (A) the resolutions relating to the Merger Agreement, the ND Deed of Undertaking, other Transaction Documents and the transactions contemplated thereunder being approved by the Shareholders at the EGM; and (B) the Company having complied with and to the satisfaction of the Stock Exchange and the Securities and Futures Commission all requirements under the Listing Rules and the SFO in relation to the Merger and other transactions contemplated therein (conditions (A) and (B) collectively, the "**Undertaking Conditions**").

Deeds of Undertaking of the Other 91 Shareholders

In contemplation of the Merger, the Other 91 Shareholders have respectively entered into the Deeds of Undertaking on 14 August 2013, pursuant to which, among other things, each of the Other 91 Shareholders has undertaken to Baidu HK and Merger Sub, subject to the terms and conditions therein, voting undertaking similar to that of the ND Deed of Undertaking.

The principal terms and conditions of the Deeds of Undertaking entered into by the Other 91 Shareholders are similar to those of the ND Deed of Undertaking, except that (i) the scope of Indemnified Parties, Indemnified Events, and the minimum and maximum amounts of indemnity are different; (ii) less undertakings are given by the Other 91 Shareholders, such as no undertaking as to Break-up Fee, non-competition, the escrow arrangement; and (iii) in respect of procurement of the satisfaction of Conditions Precedent, the Other 91 Shareholders only undertake to procure the termination of the Post Conversion Co-sale Agreement and the Post Conversion Shareholders' Agreement; and (iv) the undertakings of the Other 91 Shareholders are not subject to the Undertaking Conditions.

BAIDU UNDERTAKING

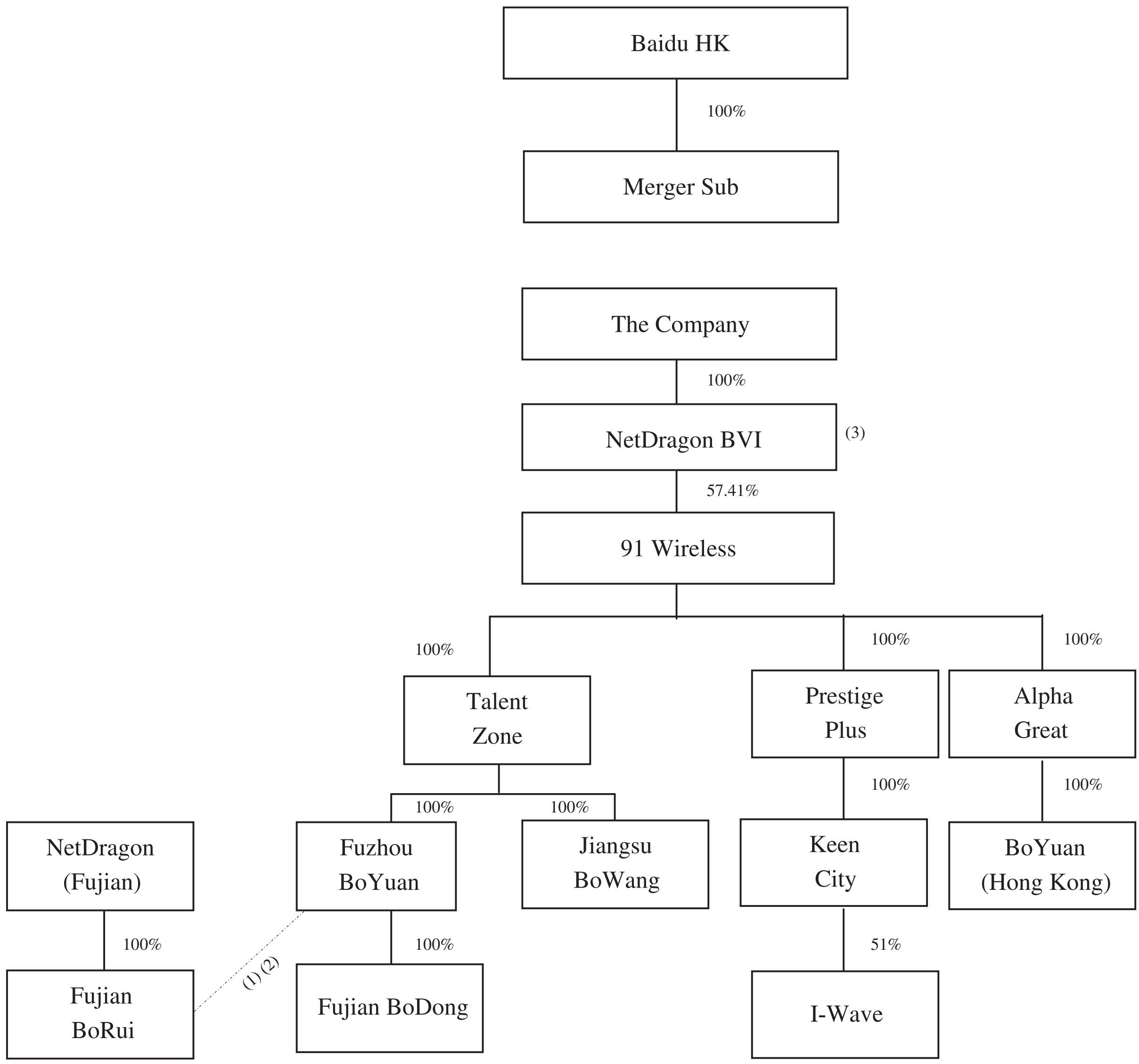
Upon receipt of the ND Deed of Undertaking and the Deeds of Undertaking of the Other 91 Shareholders, Baidu HK has entered into the Baidu Undertaking on 14 August 2013, pursuant to which

Baidu HK has undertaken to each of the Company, NetDragon BVI and the Other 91 Shareholders to perform the payment obligation of the Merger Agreement subject to the terms and conditions in the Merger Agreement.

CORPORATE STRUCTURE OF THE GROUP BEFORE AND AFTER THE MERGER

The following sets out a simplified corporate structure of the Group before and after the Merger:

(1) *As at the date of this circular:*



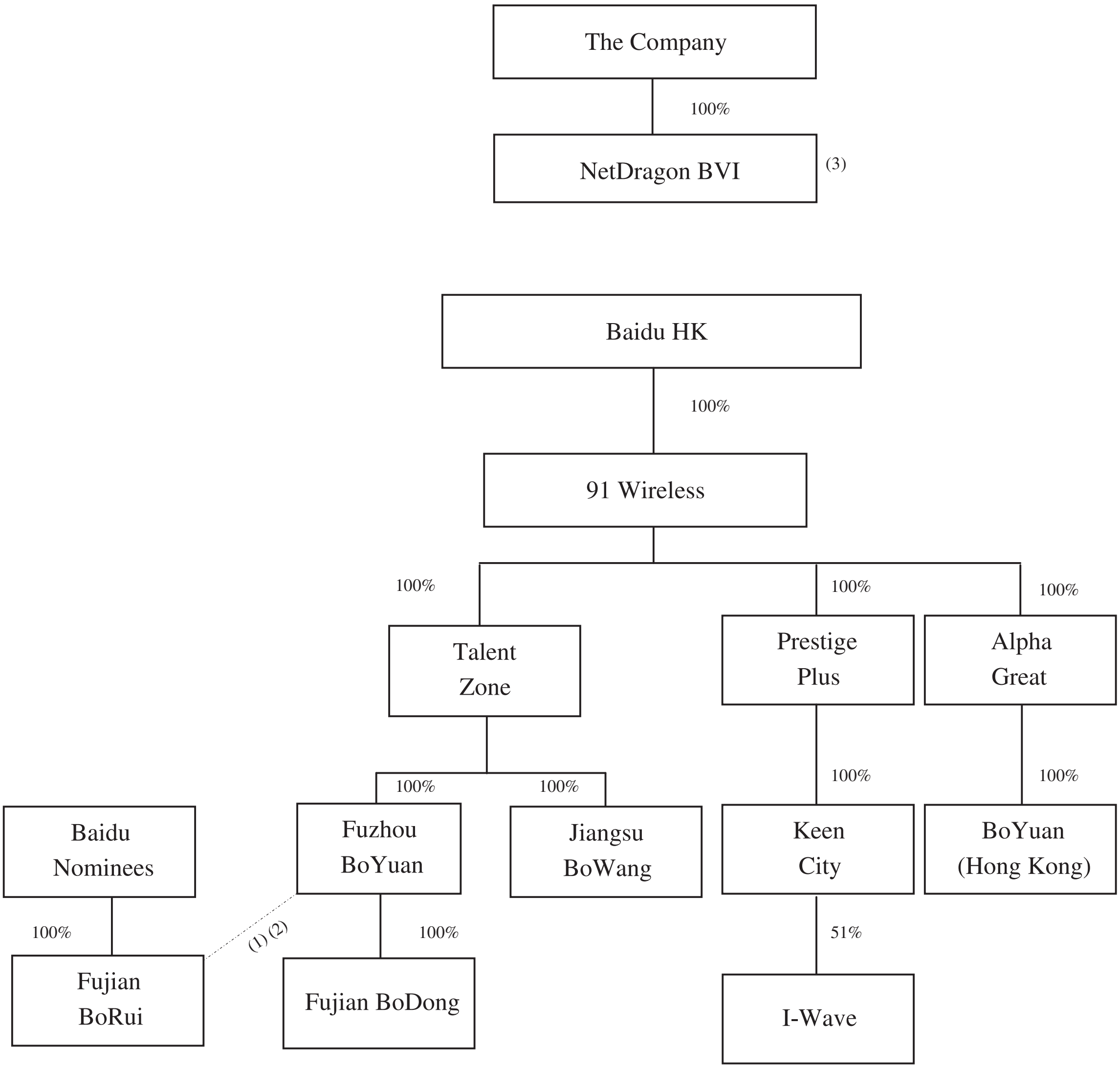
Notes:

1. A solid line denotes direct legal and beneficial ownership and a dotted line denotes a contractual relationship.

2. The Structured Contracts, taken as a whole, permit the financial results of Fujian BoRui to be consolidated with 91 Wireless as if it were a subsidiary of 91 Wireless and the economic benefit of its businesses to flow to 91 Wireless and Fuzhou BoYuan.

3. Other members of the Group, which are principally engaged in game development and game operation, have been excluded in the above diagram for illustrative purpose.

(2) *Immediately after Closing:*



Notes:

1. A solid line denotes direct legal and beneficial ownership and a dotted line denotes a contractual relationship.

2. The revised set of Structured Contracts, taken as a whole, permit the financial results of Fujian BoRui to be consolidated with 91 Wireless as if it were a subsidiary of 91 Wireless and the economic benefit of its businesses to flow to 91 Wireless and Fuzhou BoYuan.

3. Other members of the Group, which are principally engaged in game development and game operation, have been excluded in the above diagram for illustrative purpose.

INFORMATION ON THE 91 WIRELESS GROUP

91 Wireless is a company incorporated in the Cayman Islands on 4 January 2011 with limited liability, and is an indirect non wholly-owned subsidiary of the Company. 91 Wireless was owned as to 57.41% by the Group as at the date of this circular. The principal business of the 91 Wireless Group includes (i) mobile advertising and promotional services; and (ii) mobile value-added services, which represented the mobile Internet business limb of the Group. Following the Merger, 91 Wireless will have no other shareholder other than Baidu HK.

As disclosed in the Group's annual report for the year ended 31 December 2012, the Group developed a series of smartphone applications under the name "91" for a wide range of smartphone platforms. Among these applications, the most representative ones were 91 Assistant* (91助手) and HiMarket* (安卓市場), both of which were third party mobile apps stores.

The audited consolidated results of the 91 Wireless Group for each of two years ended 31 December 2012 were as follows:

	For the year ended 31 December 2012 *(RMB million)*	**For the year ended 31 December 2011** *(RMB million)*
Turnover	284.98	48.73
Operating profit/(loss)	83.62	(14.06)
Net loss before tax and extraordinary items	231.79	36.71
Net loss after tax and extraordinary items	260.02	36.71

As at 31 December 2012, the audited consolidated net liabilities of the 91 Wireless Group amounted to approximately RMB269.25 million. The net liabilities position was mainly contributed by the conversion option derivative liabilities of RMB331.22 million as at 31 December 2012. Conversion option derivative liabilities balances represented the fair value of the conversion option derivatives of the preferred shares of 91 Wireless. The 91 Wireless Group accounts were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

INFORMATION ON BAIDU HK AND MERGER SUB PROVIDED BY BAIDU HK

Baidu HK is one of the wholly owned subsidiaries of Baidu, Inc.. Baidu, Inc. is a company listed on NASDAQ, which offers a Chinese language search platform on the Baidu.com website. Its products and services can be accessed through PCs and mobile devices.

Merger Sub is an exempted company with limited liability incorporated under the laws of the Cayman Islands on 1 August 2013 for the purpose of implementing the Merger in accordance with the requirements of the CICL and is a wholly-owned subsidiary of Baidu HK. Save for entering into the Merger Agreement and the transactions contemplated thereunder, Merger Sub has not carried on any business since its date of incorporation.

FINANCIAL EFFECT OF THE MERGER

Based on the total consideration receivable by the Company under the Merger, it is estimated that the net proceeds from the Merger before tax is approximately US$1,059.61 million (equivalent to approximately RMB6,472.70 million) after deducting any related transaction costs and dividend to be received.

Based on the net proceeds as set out immediately above, the consolidated net liabilities of the 91 Wireless Group of approximately RMB269.25 million as at 31 December 2012 and the fact that prior to Closing, 91 Wireless is owned as to 57.41% by the Company, the net proceeds represents an excess of approximately RMB6,542.51 million.

Upon completion of the Disposal, it is estimated that, the Group will record a gain before tax of approximately RMB6,542.51 million. Such estimated gain shall be equal to the product of:

(A) + (B) + (C) + (D) — (E) — (F)

(A) = net proceeds from the Merger

(B) = consolidated net liabilities value of 91 Wireless Group of approximately RMB269.25 million

(C) = other non-cash items of approximately RMB321.86 million arising from the non-controlling interests of 91 Wireless Group as if the Disposal had been completed on 31 December 2012

(D) = adjustment for the special dividend declared to all shareholders of 91 Wireless prior to the completion of the Disposal of US$52.06 million (equivalent to approximately RMB318.04 million)

(E) = adjustment for the special dividend declared to the non-controlling shareholders of 91 Wireless prior to the completion of the Disposal of US$22.17 million (equivalent to approximately RMB135.45 million)

(F) = Adjustment for redeemable convertible preferred shares of approximately RMB546.03 million and issuance of new shares of approximately RMB157.86 million by 91 Wireless to NetDragan BVI

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix II to this circular, (i) the Group's total assets would increase from approximately

RMB2,445.35 million to RMB8,687.47 million and its total liabilities would increase from approximately RMB1,029.35 million to approximately RMB1,106.45 million, assuming the Merger had been completed on 31 December 2012; and (ii) the Group's profit for the year ended 31 December 2012 would increase from approximately RMB38.96 million to approximately RMB6,068.04 million, assuming the Merger had been completed on 1 January 2012.

Upon completion of the Disposal, the Directors consider that the Company will maintain sufficient level of operation and value of tangible and/or intangible assets to warrant continued listing on the Stock Exchange.

Save as for the Disposal, as at the Latest Practicable Date, the Company intends to continue its existing business and does not have any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any further disposal, termination, and/or scaling-down of its existing businesses and major assets.

REASONS FOR AND BENEFITS OF THE MERGER

The Group is principally engaged in online game development and mobile Internet business, including game design, programming and graphics, and online game operation. The mobile Internet business of the Group experienced fast growth during the year ended 31 December 2012, the turnover of which increased from RMB48.73 million in 2011 to RMB284.98 million in 2012.

The Directors are of the view that the Merger represents a good opportunity for the Group to realise its investment and development in 91 Wireless Group at a fair and reasonable price and enables the Group to further strengthen its current cash-flow and liquidity positions to increase the general working capital and cash resources for the other businesses of the Group and any future potential investment opportunities that may arise from time to time.

The Directors consider that the terms of the Merger Agreement and the ND Deed of Undertaking are determined after arm's length negotiations between the parties and on normal commercial terms. The Directors further consider that the terms of the Merger Agreement and the ND Deed of Undertaking are fair and reasonable and the Merger is in the interests of the Company and the Shareholders as a whole.

Use of proceeds

The estimated net proceeds from the Merger before tax is US$1,059.61 million (equivalent to approximately RMB6,472.70 million). The Directors intend to apply the net proceeds after tax from the Merger for the following purposes:

(a) 50% will be used as special dividend to the Shareholders;

(b) 20% will be used for further investment in the Group's existing business, such as expanding the game business including mobile games, launching new games, upgrading the game content of various existing online games, expanding the Group's overseas market, providing additional capital to enhance the research and development of game and the operational capability of the Group's existing operations;

(c) 10% will be used for potential merger and acquisition opportunities in the mobile game business and other attractive opportunities;

(d) 10% will be used to capture the new high growth opportunities such as educational and SME software by expanding the existing team and strengthening the Group's commitment to research and development and sales and marketing of such high growth businesses; and

(e) 10% will be applied as working capital and for the general corporate purposes of the Group.

BUSINESS OF THE REMAINING GROUP

After Closing, the Remaining Group will be principally engaged in game development, including game design, programming and graphics, and game operation. It is expected that new games, mainly massively multiplayer online role-playing games, will continually to be developed. The Remaining Group's integrated game development process in general involves game design, programming, graphics and testing. Further, the Remaining Group will continue to introduce new expansion packs to enrich its existing games, such as provision of additional in-game virtual items and premium features.

In addition, as disclosed in the Company's annual report for the year ended 31 December 2012, the Group is also interested in a professional company focusing on research and development of online education platform and operation of education products. The Group intends to expand the Internet education platform it developed to provide open education resources mainly to users located in Fujian Province, the PRC.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios as defined in the Listing Rules in respect of the Merger exceed 75%, the Merger constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the IDG Investors are members of the IDG Group which is a substantial shareholder of the Company and is entitled to exercise 10% or more of voting power at a general meeting of 91 Wireless, 91 Wireless is regarded as a connected person of the Company under Rule 14A.11(5) of the Listing Rules. Accordingly, the Merger constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and will be subject to the approval by the Independent Shareholders at the EGM by way of poll. The EGM will be held by the Company at which resolution(s) will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the Merger Agreement, the ND Deed of Undertaking and the transactions contemplated thereunder, including the Merger. As at the date of this circular, Mr. Liu Dejian together with his associates, hold approximately 48.23% shareholding interests in the Company. Except for (i) shareholding interests held through the Company; and (ii) Mr. Liu Dejian's approximately 0.36% shareholding interests in 91 Wireless, none of them has any other shareholding interests in 91 Wireless. Other than the IDG Investors, no other Shareholders are required to abstain from voting on the resolution(s) to approve the Merger Agreement, the ND Deed of Undertaking and the transactions contemplated thereunder at the EGM. Accordingly, the controlling shareholders of the Company, including Mr. Liu Dejian, are entitled to vote at the EGM.

Each of Mr. Liu Dejian and Mr. Chen Hongzhan, both of whom are executive Directors and directors of 91 Wireless, is interested in 0.4% or less in the shareholding interest of 91 Wireless. The Directors consider that their shareholding interests in 91 Wireless are not material. As such, Mr. Liu Dejian and Mr. Chen Hongzhan may vote at the board resolution in relation to the Merger Agreement and the Plan of Merger. Nonetheless, for better corporate governance, both Mr. Liu Dejian and Mr. Chen Hongzhan have voluntarily abstained from voting at the board resolution in relation to the Merger Agreement and the Plan of Merger.

The Independent Board Committee has been established to give recommendation to the Independent Shareholders in respect of the Merger. Anglo Chinese has been appointed by the Independent Board Committee as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 12 June 2008.

The Board proposed to amend certain existing provisions in the Share Option Scheme. Details of the proposed amendments are set out in the Appendix V to this circular. Apart from the proposed amendments as set out in the Appendix V to this circular, all other existing terms of the Share Option Scheme will remain unchanged.

Reasons for the amendments

As part of a review of the Group's remuneration system, the Board considers that the proposed amendments to the terms of the Share Option Scheme provide flexibility for the Board to determine the remuneration package to employees of the Group and enhance the Company's capability to attract, motivate and retain its employees. The Board is of the view that it is important for the Company to continue to offer the employees further incentives to contribute to the growth, development and success of the Group by inducing their initiatives and enthusiasm.

GENERAL INFORMATION

The notice convening the EGM is set out on pages 194 to 196 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM in person, you are requested to complete and return the accompanying proxy form to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM. The return of the proxy form will not preclude you from attending and voting in person if you so wish.

VOTING AT THE EXTRAORDINARY GENERAL MEETING

Pursuant to Rule 13.39 of the Listing Rules, all votes of the Shareholders at the general meetings must be taken by poll. The chairman of the EGM will therefore demand a poll for every resolution put to the vote of the EGM pursuant to article 66 of the articles of association of the Company.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 28 of this circular which contains its recommendation to the Independent Shareholders in relation to the terms of the Merger Agreement and the ND Deed of Undertaking.

Your attention is also drawn to the letter from Anglo Chinese set out on pages 29 to 63 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Merger Agreement and the ND Deed of Undertaking and the principal factors and reasons taken into account in arriving at its recommendations.

The Directors consider that the terms of the Merger Agreement and the ND Deed of Undertaking are determined after arm's length negotiations between the parties and on normal commercial terms. The Directors further consider that the terms of the Merger Agreement and the ND Deed of Undertaking are fair and reasonable and the Merger is in the interests of the Company and the Shareholders as a whole.

Furthermore, your attention is drawn to the additional information set out in Appendix V to this circular. For the reasons as stated in the paragraph headed "Proposed amendments to the Share Option Scheme", the Board considers that the proposed amendments to the Share Option Scheme would clarify certain terms of the Share Option Scheme and are in the best interest of the Company and its Shareholders as a whole and accordingly recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

The Independent Board Committee, having taken into account the terms of the Merger Agreement and the ND Deed of Undertaking and the advice of Anglo Chinese, considers that the Merger is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Merger Agreement and the ND Deed of Undertaking.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of EGM.

Yours faithfully,
For and on behalf of the Board
NetDragon Websoft Inc.
Liu Dejian
Chairman

NetDragon Websoft Inc.
網龍網絡有限公司

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

11 September 2013

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO PROPOSED DISPOSAL OF 91 WIRELESS GROUP BY WAY OF MERGER

We refer to the circular of the Company dated 11 September 2013 (the "Circular") of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Merger Agreement. Anglo Chinese has been appointed as the independent financial adviser to advise us and you regarding the terms of the Merger Agreement. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 29 to 63 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having considered the terms of the Merger Agreement and the advice of Anglo Chinese, we consider the Merger is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Merger Agreement.

Yours faithfully,
Independent Board Committee

Chao Guowei, Charles	Lee Kwan Hung	Liu Sai Keung, Thomas
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of the letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
www.anglochinesegroup.com
英高財務顧問有限公司

11 September, 2013

The Independent Board Committee
NetDragon Websoft Inc.
Unit 2209, 22nd Floor,
Shun Tak Centre, West Tower,
200 Connaught Road,
Central, Hong Kong

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO PROPOSED DISPOSAL OF 91 WIRELESS GROUP BY WAY OF MERGER

We refer to our appointment by NetDragon Websoft Inc. to advise the Independent Board Committee and the Independent Shareholders in connection with the Merger. The terms of the Merger are set out in this circular, of which this letter forms part, despatched to Shareholders on 11 September, 2013. We recommend that you advise the Shareholders to read this circular carefully before they decide on how to vote on the resolution relating to the Merger that will be considered at the EGM. The terms defined in this circular shall have the same meanings when used in this letter unless the context otherwise requires.

Reference is made to the announcements of the Company dated 15 July, 2013 and 16 August, 2013. On 15 July, 2013, the Company, NetDragon BVI, a subsidiary of the Company, and Baidu Holdings Limited entered into the legally binding Memorandum of Understanding in relation to the proposed disposal of the issued share capital of 91 Wireless (formerly known as 91 Limited) held by NetDragon BVI pursuant to the Definitive Documentation[1].

[1] "Definitive Documentation" is defined in the announcement of the Company dated 15 July, 2013 to be an agreement(s) between the Company, NetDragon BVI and Baidu Holdings Limited and Other 91 Shareholders and, or 91 Wireless where the legal effect of such agreement will allow Baidu Holdings Limited to acquire and hold (i) 90% or more of the issued share capital of 91 Wireless (inclusive of the 80,571,528 91 Wireless Shares held by NetDragon BVI); and, or (ii) all business and assets of the 91 Wireless Group.

Subsequently on 14 August, 2013, (a) the Merger Agreement was entered into between 91 Wireless, an indirect wholly owned subsidiary of the Company, Baidu HK and Merger Sub, a wholly owned subsidiary of Baidu HK, pursuant to which Merger Sub will merge with and into 91 Wireless at the Effective Time, with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK as a result of the Merger; and (b) the Deeds of Undertaking were entered into by the Company and NetDragon BVI and by the Other 91 Shareholders, respectively, pursuant to which the Company, NetDragon BVI and each of the Other 91 Shareholders have undertaken to Baidu HK and Merger Sub to vote, or to cause the registered holder of their respective 91 Wireless Shares to vote, in favour of the approval of the Merger Agreement and the transactions contemplated under the Merger Agreement at the extraordinary general meeting of 91 Wireless. Baidu HK is a wholly owned subsidiary of Baidu, Inc. that offers Chinese language internet search platform on the *Baidu.com* website and a publicly traded company listed on NASDAQ.

According to the Memorandum of Understanding, the Merger Consideration was determined at an aggregate amount of US$1,900 million (equivalent to approximately HK$14,740 million). Subject to the completion of the Disposal, a special dividend of approximately US$52.06 million (equivalent to approximately HK$403.91 million) will be distributed to the existing shareholders of 91 Wireless on a pro rata basis. As such, the Merger Consideration is adjusted to US$1,847.94 million (equivalent to approximately HK$14,336.09 million). Subject to the Merger becoming effective, the Company and Other 91 Shareholders (other than the holders of the Dissenting Shares) will be entitled to receive the Merger Consideration in the amount of US$13.168 in cash per 91 Wireless Share. Based on 80,571,528 91 Wireless Shares held by NetDragon BVI as at the Latest Practicable Date and subject to the Merger becoming effective, NetDragon BVI will be entitled to receive approximately US$1.09 billion (equivalent to approximately HK$8.46 billion) in cash comprising (a) consideration of US$1,060.97 million (equivalent to approximately HK$8,230.87 million) under the Merger Agreement; and (b) a special dividend of around US$29.89 million (equivalent to approximately HK$231.90 million) declared by 91 Wireless prior to Closing. The distribution of the special dividend is conditional upon Closing.

Upon Closing, the Remaining Group including NetDragon BVI will not hold any 91 Wireless Shares.

As the applicable percentage ratios as defined in the Listing Rules in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. The IDG Investors are members of the IDG Group which is a substantial shareholder of the Company and is entitled to exercise 10% or more of voting power at a general meeting of 91 Wireless. As such, IDG Group is regarded as a connected person of the Company under Rule 14A.11(5) of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Disposal, comprising the Merger Agreement, the ND Deed of Undertaking and the transactions contemplated thereunder, including the Merger, are conditional upon the approval by the Independent Shareholders at the EGM by way of a poll having been obtained. As at the date of this circular, IDG Group which held 78,333,320 Shares, representing 15.34% of the issued share capital of the Company, will abstain from voting at the EGM as it has a material interest in the Merger. Other than IDG Group, no other Shareholders are required to abstain from voting on the resolution(s) to approve the Merger Agreement, the ND Deed of Undertaking and the transactions contemplated thereunder at the EGM. Accordingly, the controlling shareholders of the Company, namely Mr. Liu Dejian together with his associates namely, Mr. Liu Luyuan who is a brother of Mr. Liu Dejian, and Mr. Zheng Hui, a cousin of Mr. Liu Dejian (all of whom are Directors) who control in aggregate 246,207,995 Shares as at the Latest Practicable Date, representing 48.23% of the issued share capital of the Company, are entitled to vote at the EGM. Save for the approval from the Independent Shareholders at the EGM, the Closing is also subject to the conditions precedent as set out on pages 14 to 16 of this circular.

Set out below are the shareholders of 91 Wireless and their respective shareholding interest in percentage terms in 91 Wireless as at the Latest Practicable Date:

Shareholders of 91 Wireless	Percentage of shareholding
The Company	57.41%
Mr. Liu Dejian, a Director	0.36%
Mr. Chen Hongzhan, a Director	0.36%
Employees and share award trusts in relation to the Company	6.05%
IDG Group	10.40%
Certain employees of the Company (through shareholdings in Euro Victory)	4.36%
Senior management of the Company (through shareholding interest in Sino Coast Developments limited)	1.22%
Other investors	19.84%
Total	100.00%

An Independent Board Committee comprising all independent non-executive Directors, namely, Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas, has been formed to advise the Independent Shareholders in respect of the Disposal.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst other things, the published information on the Group, including its audited financial statements for the past three years the last of which ended on 31 December, 2012; its published unaudited interim financial statements for the six months ended 30 June, 2013; the published unaudited interim results for the six months ended 30 June, 2011 and 2012; and positive profit alert announcement of the Company dated 13 May, 2013; the Memorandum of Understanding; the Merger Agreement; the Deeds of Undertaking; and Accountants' Report of audited financial statements of 91 Wireless Group for the two years ended 31 December, 2012, and three months ended 31 March, 2013. We have also discussed with the management of the Company the plans and prospects of the Group.

We consider that we have reviewed sufficient information and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach the conclusion set out in this letter, and have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Directors and have been advised by the Directors that no material information has been omitted from the information provided to us or referred to in this circular. We have relied on the information so provided to us and we have not verified it or conducted a comprehensive review of the businesses and affairs of the Group or the current and future prospects of its businesses or the business sectors in which they operate. We have also relied on the information contained in this circular and have assumed that the statements made in it are true and accurate.

Apart from normal professional fees for our services to the Company in connection with our appointment described above, no arrangement exists whereby we will receive any fees or benefits from the Company or any of its associates.

PRINICIPAL FACTORS

The following are the principal factors which we have taken into account in formulating and giving our opinion to the Independent Board Committee:

Background to the Merger

Memorandum of Understanding dated 15 July, 2013

As mentioned above, on 15 July, 2013, the Company, NetDragon BVI and Baidu Holdings Limited entered into the legally binding Memorandum of Understanding in relation to the proposed disposal of the issued share capital of 91 Wireless pursuant to the Definitive Documentation. NetDragon BVI and Baidu Holdings Limited agreed that the Definitive Documentation shall include the following terms:

— the aggregate purchase price of the entire issued share capital of 91 Wireless shall be US$1.9 billion (equivalent to HK$14.74 billion);

— the Proposed Sale Price of the 80,571,528 91 Wireless Shares (representing 57.41% of the issued share capital of 91 Wireless) held by NetDragon BVI shall be US$1.09 billion (equivalent to HK$8.46 billion); and

— upon completion of the transactions contemplated in the Definitive Documentation, Baidu Holdings Limited shall pay the Proposed Sale Price minus the Break-Up Fee (which shall then be treated as part of the Proposed Sale Price of the Sale Shares) in immediately available funds to NetDragon BVI.

According to the Memorandum of Understanding, Baidu Holdings Limited agreed that it shall purchase such 91 Wireless Shares from the Other 91 Shareholders on the same terms and conditions as those agreed between NetDragon BVI and Baidu Holdings Limited, if the Other 91 Wireless Shareholders are willing to sell their 91 Wireless Shares by the long stop date on 14 August, 2013.

The Memorandum of Understanding provides for a Break-up Fee of US$50 million (equivalent to approximately HK$387.9 million) payable by Baidu Holdings Limited to NetDragon BVI within three days after the date of the Memorandum of Understanding.

Proposed spin-off and separate listing of 91 Wireless on the GEM of the Stock Exchange

As at the date of the announcement on 16 August, 2013, an application has been made to the Stock Exchange for the Proposed Listing. Under the Merger Agreement, 91 Wireless shall upon Closing terminate its application for the Proposed Listing of the 91 Wireless Shares on the GEM of the Stock Exchange.

The Merger Agreement dated 14 August, 2013

Principle terms of the Merger

On 14 August, 2013, the Merger Agreement was entered into between 91 Wireless, Baidu HK and Merger Sub, a wholly owned subsidiary of Baidu HK. Under the Merger Agreement and in accordance with CICL, Merger Sub will merge with and into 91 Wireless at the Effective Time. As at the Effective Time, the corporate existence of Merger Sub will cease and 91 Wireless will continue as the surviving corporation of the Merger (the "**Surviving Corporation**"). At the Effective Time, the Company will cease to hold any interest in 91 Wireless and each member of the 91 Wireless Group shall cease to be a subsidiary of the Company.

Consideration under the Merger Agreement

According to the Memorandum of Understanding, the Merger Consideration for all the issued 91 Wireless Shares was determined at US$1.9 billion (equivalent to approximately HK$14.74 billion). Having taken into account of the declaration of a special dividend in the aggregate amount of around US$52.06 million by 91 Wireless to its existing shareholders on a pro rata basis on or prior to Closing, the distribution of which is subject to completion of the Disposal, the Merger Consideration is adjusted to an aggregate amount of US$1,847.94 million (equivalent to approximately HK$14,336.09 million). Subject to the Merger becoming effective, each shareholder of 91 Wireless (other than the holders of the Dissenting Shares) will be entitled to receive the Per Share Merger Consideration of US$13.168 per 91 Wireless Share.

As stated in the Letter from the Board of Directors in this circular, the Merger Consideration was arrived at after arm's length negotiations between NetDragon BVI and Baidu HK and taking into account factors including but not limited to the value of the members of 91 Wireless Group registered and operated outside of the territory of the PRC, compensation for the termination of the Proposed Spin-off and Proposed Listing, compensation for the non-competition undertakings provided by NetDragon BVI and the Company under the ND Deed of Undertaking and the compensation in relation to the potential special dividend distribution of the Company following the consummation of the Merger.

Based on the terms of the Merger Agreement, the consideration receivable by the Company from the Paying Agent under the Merger, after the Effective Time, shall be equal to the product of:

(A1) X (B1) - (C1) - (D1) - (E1)

Where,

(A1) = Per Share Merger Consideration

(B1) = 91 Wireless Shares (other than the Dissenting Shares) held by NetDragon BVI as shown against the name of NetDragon BVI in the register of members of 91 Wireless

(C1) = Break-Up Fee, which has been paid in full to NetDragon BVI on 18 July, 2013

(D1) = the Onshore Closing Payment Amount, which will be paid to NetDragon (Fujian) in accordance with the Equity Interests Transfer Agreements

(E1) = Escrowed Amount, which shall be paid to the Escrow Agent and released to NetDragon BVI after expiry of eighteen (18) months from the Effective Time pursuant to the terms and conditions set out in the ND Deed of Undertaking and an escrow agreement to be entered into among Baidu HK and NetDragon BVI

As at the Latest Practicable Date, 91 Wireless had a total of 140,335,556 issued 91 Wireless Shares, of which 80,571,528 91 Wireless Shares, representing approximately 57.41% of the issued share capital of 91 Wireless, were held by NetDragon BVI. Accordingly the aggregate consideration receivable by the Group under the Merger will be about US$1,060.97 million (equivalent to approximately HK$8,230.87 million). In addition, NetDragon BVI will be entitled to receive, subject to completion of the Disposal, a special dividend of around US$29.89 million declared by 91 Wireless prior to Closing, as shown in the table below:

Table 1 — Aggregate consideration to be received by the Company upon Closing will comprise:

		US$ million
(i)	Cash consideration under the Merger Agreement	1,060.97
(ii)	Special dividend	29.89
Total consideration to be received by the Group upon Closing		1,090.86
		(equivalent to approximately HK$8,462.78 million)

The Merger Consideration together with the special dividend described above implies a valuation of approximately US$1.9 billion (equivalent to HK$14.74 billion) (the "**Merger Valuation**") for the entire issued share capital of 91 Wireless.

Other shareholders of 91 Wireless are entitled to the Per Share Merger Consideration of US$13.168 on similar terms as NetDragon BVI, except that (i) the Management Shareholders will receive the Management Shareholders Deferred Payment Amount only on the first and second anniversary of the Effective Time respectively pursuant to the terms and conditions of the Management Deferred Payment Agreement.

Conditions Precedent

The obligations of the parties to the Merger Agreement to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the conditions stated on pages 14 to 16 of this circular. In particular, Shareholders should note the following conditions precedent:

— the approval of the Merger Agreement and the Merger by the shareholders of 91 Wireless at a meeting of shareholders 91 Wireless having been obtained as described more fully under the heading "91 Wireless shareholders' approval" below;

— holders of at least 90% of the issued share capital of 91 Wireless having entered into the Deeds of Undertaking in substantially the form provided in the Merger Agreement;

— the approval by the Shareholders of the resolution in relation to, inter alia, the Merger Agreement, the ND Deed of Undertaking and all transactions contemplated thereunder at the EGM having been obtained; and

— the Company having complied with and to the satisfaction of the Stock Exchange and other relevant regulatory authorities all requirements under the Listing Rules and/or the SFO in relation to the Merger and other transactions contemplated thereunder.

91 Wireless shareholders' approval

The approval of the Merger Agreement and the Merger will be subject to the affirmative consent of holders of 91 Wireless Shares representing at least three-fourths of the 91 Wireless Shares at the shareholders' meeting of 91 Wireless (the "**Requisite Company Vote**") having been obtained. Shareholders should note that in view of the ND Deed of Undertaking and Deed of Undertaking of the Other 91 Shareholders as described in more detail below, it is expected that the Requisite Company Vote will be obtained.

Termination of the Merger Agreement

The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time whether the Requisite Company Vote has been obtained:

(1) by mutual written agreement of 91 Wireless and Baidu HK;

(2) by either 91 Wireless or Baidu HK, if:

(i) the Merger has not been consummated on or before 31 December, 2013 (the "**End Date**"); provided that the right to terminate the Merger Agreement shall not be available to any party whose breach of any provision of the Merger Agreement results in the failure of the Merger to be consummated by such time;

(ii) there shall be any Law or Order that (a) makes consummation of the Merger illegal or otherwise prohibited or (b) enjoins 91 Wireless or Baidu HK from consummating the Merger and such injunction shall have become final and non-appealable; or

(iii) the post conversion co-sale agreement and the post conversion shareholders' agreement have not been effectively terminated in accordance with their respective terms by the End Date; or

(3) by Baidu HK, if an Adverse Recommendation Change shall have occurred, or if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of 91 Wireless set forth in the Merger Agreement shall have occurred that would cause the condition set forth in sub-paragraph (2)(i) not to be satisfied, and such condition is incapable of being satisfied by the End Date; or

(4) by 91 Wireless, if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Baidu HK or Merger Sub set forth in the Merger Agreement shall have occurred that would cause the condition set forth in the above sub-paragraph (d)(3)(i) not to be satisfied, and such condition is incapable of being satisfied by the End Date; or

(5) by 91 Wireless, if the Shareholders' approval at the EGM for approving, among other, the Merger Agreement, the ND Deed of Undertaking and all transactions contemplated thereunder shall not have been obtained.

The Deeds of Undertaking

ND Deed of Undertaking

In contemplation of the Merger, the Company and NetDragon BVI have entered into the ND Deed of Undertaking on 14 August, 2013, pursuant to which, among other things, the Company and NetDragon BVI have jointly and severally undertaken to Baidu HK and Merger Sub, subject to the terms and conditions therein:

(a) at the extraordinary general meeting of 91 Wireless, (i) to vote, or to cause the registered holder of the Relevant 91 Wireless Shares to vote, in favor of (A) the approval of the Merger Agreement, the Plan of Merger and the transactions contemplated under the Merger Agreement, and (B) any related matter for the completion of the transactions contemplated by the Merger Agreement; and (ii) not to, or to cause the registered holder of the Relevant 91 Wireless Shares not to vote, in favour of, and will vote against, any resolutions approving (A) any transaction which is similar in nature or has the same effect as the transactions contemplated under the Merger Agreement, (B) the issue and distribution of shares or securities by 91 Wireless Group and its controlled entities or (C) application for listing on any internationally recognized stock exchange or issue of listing document by 91 Wireless, without the prior written consent of Baidu HK and Merger Sub.

(b) for a period up to and including 31 March, 2015, on an after taxation basis, to indemnify each of the Indemnified Parties against and agree to hold each of such Indemnified Parties harmless from any and all the Damages incurred and suffered by any Indemnified Parties or any of their respective successors and permitted assignees arising out of the Indemnified Events, provided that (i) the Company and NetDragon BVI shall not be liable for any such claim unless the aggregate amount of Damages exceeds US$1 million, in which case the Company and NetDragon BVI shall be liable for all such Damages within such threshold, and (ii) the amount of the aggregate Damages shall be subject to the maximum amount of US$300 million;

(c) not to and procure the subsidiaries and/or controlled entitles of the Company and NetDragon BVI not to, for a period of two (2) years from the consummation of the Merger, carry on or acquire, hold or be otherwise beneficially interested in 50% or more equity interests in any business which is in competition with the business of the Surviving Group, namely the Restricted Business;

(d) provided that Baidu HK uses its reasonable endeavours to procure satisfaction of the Conditions Precedent but Closing does not occur for any reason which is not attributable to the fault of Baidu HK, to return promptly or procure the return of the full amount of the Break-Up Fee to Baidu HK and in any event within three days after the End Date; and upon Closing, the Break-Up Fee will be treated as part of the consideration that NetDragon BVI is entitled to receive for the Merger;

(e) to procure the satisfaction of the Conditions Precedent set forth in sub-paragraph (d)(2) of the sub-section headed "The Merger Agreement" by 91 Wireless; and

(f) during the period commencing from the date when the Merger Agreement taking effect and continuing until the Effective Time or the termination of the Merger Agreement, whichever is earlier, not to, without the prior written consent from Baidu HK and Merger Sub, (A) transfer, charge, encumber, grant any option over or otherwise dispose of any Relevant 91 Wireless Shares; (B) accept any offer made by a third party in respect of the Relevant 91 Wireless Shares; (C) other than pursuant to the Merger, enter into any Dealings Agreement or permit any Dealings Agreement to be entered into or incur any such obligation; (D) purchase, sell or otherwise deal in the Relevant 91 Wireless Shares.

The undertakings set forth in the sub-paragraphs (a), (b) and (c) above are subject to (A) the resolutions relating to the Merger Agreement, the ND Deed of Undertaking, other Transaction Documents and the transactions contemplated thereunder being approved by the Shareholders at the EGM; and (B) the Company having complied with and to the satisfaction of the Stock Exchange and the Securities and Futures Commission all requirements under the Listing Rules and the SFO in relation to the Merger and other transactions contemplated therein (conditions (A) and (B) collectively, the "**Undertaking Conditions**").

Deed of Undertaking of the Other 91 Shareholders

In contemplation of the Merger, the Other 91 Shareholders have respectively entered into the Deeds of Undertaking on 14 August, 2013, pursuant to which, among other things, each of the Other 91 Shareholders has undertaken to Baidu HK and Merger Sub, subject to the terms and conditions therein, voting undertaking similar to that of the ND Deed of Undertaking.

The principal terms and conditions of the Deeds of Undertaking entered into by the Other 91 Shareholders are similar to those of the ND Deed of Undertaking, except that (i) the scope of Indemnified Parties, Indemnified Events, and minimum and maximum amount of indemnity are different; (ii) less undertakings are given by the Other 91 Shareholders, such as no undertaking as to Break-up Fee, non-competition, the escrow arrangement; and (iii) in respect of procurement of the satisfaction of Conditions Precedent, the Other 91 Shareholders only undertake to procure the termination of the Post Conversion Co-sale Agreement and the Post Conversion Shareholders' Agreement; and (iv) the undertakings of the Other 91 Shareholders are not subject to the Undertaking Conditions.

Baidu Undertaking

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

Information on Baidu HK and Merger Sub

Baidu HK is a wholly owned subsidiary of Baidu, Inc., which is a publicly traded company listed on NASDAQ and offers a Chinese language search platform on the Baidu.com website where products and services can be accessed through computers and mobile devices. The revenue and net profit of Baidu, Inc. for the 2012 financial year was RMB22.31 billion and RMB10.46 billion. As at the Latest Practicable Date, the market capitalisation of Baidu, Inc. amounted to approximately US$47.8 billion, equivalent to approximately HK$370.83 billion.

Merger Sub is an exempted company with limited liability incorporated under the laws of the Cayman Islands on 1 August, 2013 for the purpose of implementing the Merger in accordance with the requirements of the CICI and is a wholly-owned subsidiary of Baidu HK. Save for entering into the Merger Agreement and the transaction contemplated thereunder, Merger Sub has not carried on any business since its date of incorporation.

Changes to the corporate structure of the Group before and after the Merger

As at the Latest Practicable Date, 91 Wireless is an indirect 57.41% owned subsidiary of the Company. As at the Effective Time, the Company will cease to hold any interest in 91 Wireless and each member of the 91 Wireless Group will cease to be a subsidiary of the Company.

Business and financial condition of the Group

The Group, headquartered in Fuzhou City of Fujian Province, the PRC, is one of the leading online game and mobile Internet application developers and operators in the PRC. The Group had launched to the market its self-developed 91 Smartphone Apps Marketplaces, 91 Smartphone Apps covering mobile phone platforms such as iOS, Android, Windows Phone and Symbian, and a series of application software of image management, instant messaging, wealth management, entertainment to provide a broad range of games and entertainment services for users. The Group's mobile Internet business is conducted through 91 Wireless, a subsidiary of the Company and the subject of the Disposal.

The Company was listed on GEM of the Stock Exchange on 2 November, 2007, and raised listing proceeds of approximately HK$1.6 billion at the time. Its listing was transferred to the Main Board of the Stock Exchange in June, 2008 by way of introduction. The Company had a stock market capitalisation of approximately HK$8.7 billion as at the Latest Practicable Date.

*Redeemable convertible preferred shares ("**Preferred Shares**") and promissory notes*

On 13 August, 2011, 91 Wireless (formerly known as "**91 Limited**"), an indirect subsidiary of the Company, issued 15,384,000 Series A Preferred Shares at an aggregate issue price of US$3,999,840 (equivalent to approximately HK$31.2 million) to group entities of IDG Investors, a substantial shareholder of the Company. 91 Wireless also issued 16,025,000 Series B Preferred Shares at an aggregate issue price of US$20 million (equivalent to approximately HK$156 million) to Vertex Asia Growth Ltd., IP Cathay II, L.P. and DT Capital China Growth Fund, L.P. on 15 and 30 December, 2011.

On 12 October, 2012, 91 Wireless also issued 1,602,500 Series B Preferred Shares at an aggregate issue price of US$2 million (equivalent to approximately HK$15.52 million) to Sino Coast Developments Limited. On 10 January, 2013, 91 Wireless further issued 5,813,902 series B Preferred Shares, 601,438 series B Preferred Shares and 601,348 series B Preferred Shares to independent third parties, Pacific Century Diversified Limited, Grandwin Enterprises Limited and an individual investor at an aggregate issue price of US$17.5 million (equivalent to approximately HK$135.7 million).

On 21 September, 2011, 91 Wireless issued promissory notes with a total principal amount of US$5,000,000 (equivalent to approximately HK$39 million) to IDG Investors. The holders of promissory notes have the option to convert the entire principal amount of the promissory notes into such number of Preferred Shares by dividing the entire principal amount of the promissory notes by the applicable conversion price as determined at the time of conversion.

On 17 February, 2012, the promissory notes issued by 91 Wireless were converted into 4,006,250 series B Preferred Shares at a conversion price of approximately US$1.248 per share and on the same date, 91 Wireless issued 2,403,750 series B Preferred Shares at a price of US$1.248 per share and an aggregate issue price of US$3 million (equivalent to approximately HK$23.34 million) to NetDragon (BVI).

Set out in Table 2 below are the highlights of the financial performance of the Group for the past three years and six months ended 30 June, 2013:

Table 2 — Highlights of the financial performance of the Group for the past three years and six months ended 30 June, 2013

	For the year ended 31 December,			**For the six months ended 30 June,**
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Online game business in the PRC	414,003	572,470	717,048	381,229
Online game business in overseas markets	117,769	129,095	108,696	54,924
Online game business	531,772	701,565	825,744	436,153
Mobile Internet business (Note a)	—	59,409	282,605	346,688
Total revenue	531,772	760,974	1,108,349	782,841
Cost of revenue	(66,333)	(75,032)	(116,359)	(87,292)
Gross profit	465,439	685,942	991,990	695,549
Gross profit margin	87.5%	90.1%	89.5%	88.9%
Operating profit	69,662	201,373	407,980	332,384
EBITDA	128,531	250,114	440,210	357,421
Net gain/(loss) on derivative financial instruments	—	(17,792)	(282,424)	30,345
Profit before taxation	69,662	179,775	113,897	355,348
Taxation	(34,769)	(44,532)	(74,936)	(84,678)
Profit for the year/period attributable to				
— owners of the Company	34,949	135,161	39,176	236,401
— non-controlling interests	(56)	82	(215)	34,269
Profit for the year/period	**34,893**	**135,243**	**38,961**	**270,670**
Net profit margin	6.6%	17.8%	3.5%	34.6%
Earnings per Share Basic (RMB cents)	6.64	25.85	7.71	46.84
Diluted (RMB cents)	6.64	25.85	7.60	41.12
Aggregate dividends paid and declared per Share	HK$0.07	HK$0.22	HK$0.35	HK$0.20

Source: Annual reports and interim results announcement of the Company for the relevant years or period.

Notes:

a. Revenue from the mobile Internet business in the PRC and overseas markets for the periods indicated above represent a substantial part of the revenue generated by 91 Wireless Group. The financial results and position of 91 Wireless has been consolidated into the consolidated financial statements of the Group since 2011. Mobile Internet business income of approximately RMB6.66 million was recorded as other income and gains for the year ended 31 December, 2010. A further breakdown of revenue from Mobile Internet business is shown below:

	For the year ended 31 December,			For the six months ended 30 June,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mobile internet business in the PRC	—	59,409	277,323	N/A
Mobile internet business in overseas market	—	—	5,282	N/A
Mobile Internet business in the PRC and overseas market	—	59,409	282,605	346,688

b. No geographical breakdown of revenue was provided in the 2010 annual report of the Group.

c. EBITDA means earnings before interest tax, depreciation and amortisation. It is calculated as the sum of operating profit, depreciation and amortisation.

For the year ended 31 December, 2012 compared to the year ended 31 December, 2011 and the issue of Preferred Shares in 91 Wireless

The financial year ended 31 December, 2012 saw a 46% increase in revenue to approximately RMB1,108.3 million largely as revenue from online game business in the PRC increased approximately 25% to RMB717.0 million and revenue from mobile Internet business in the PRC increased 4.7 times to RMB277.3 million. Gross profit margin remained stable for the last three financial years ended 31 December, 2010, 2011 and 2012. Operating profit for 2012 financial year also doubled to approximately RMB408.0 million during the 2012 financial year. Profit for the 2012 financial year decreased 71.2% to approximately RMB 39.0 million largely as a result of a net loss on derivative financial instruments of RMB282.4 million (2011: RMB17.8 million) and a 78% increase in the PRC Enterprise Income tax to RMB67.3 million (2011: RMB37.8 million).

The net loss on derivative financial instruments of RMB282.4 million for the 2012 financial year mainly relates to a net loss on changes in fair value of conversion option of series A and series B Preferred Shares in 91 Wireless. The conversion ratio was initially one ordinary 91 Wireless Share for each Preferred Share, subject to adjustments in the event of share splits, share combinations, share dividends or distribution, recapitalisation and similar events.

For the year ended 31 December, 2011 compared to the year ended 31 December, 2010

The financial year ended 31 December, 2011 saw a 43% increase in revenue to approximately RMB761.0 million from RMB531.8 million in 2010. Revenue from online game business increased approximately 32% to RMB701.6 million from RMB531.8 million in 2010. The mobile internet business became one of the core businesses of the Group in 2011, with revenue from mobile Internet business increased 8.9 times to RMB59.4 million from RMB6.7 million in 2010. Operating profit for 2011 financial year also increase by 189% to approximately RMB201.4 million from RMB69.7 million in 2010. Net profit increased approximately 288% to RMB135.2 million from RMB34.9 million in 2010. The net profit margin also increased significantly to 17.8% in 2011 from 6.6% in 2010.

For the six months ended 30 June, 2013

For the six months ended 30 June, 2013, the Group recorded a 53% growth in its revenue to approximately RMB782.8 million and a 107% growth in its operating profit to approximately RMB332.4 million as compared to the first half of 2012. Online game revenue for the first half of 2013 was approximately RMB436.1 million, representing an increase of 1% from the second half of 2012 and an increase of 11% over the same period in 2012. Due to the continuous efforts put into the research and development and promotion of self-developed software products and games for smart-phones, mobile Internet business revenue for the first half of 2013 was approximately RMB346.7 million, representing an increase of 114% from the second half of 2012 and an increase of 188% over the corresponding period in 2012. Gross profit margin decreased slightly to 88.85% for the first half of 2013.

On 27 March, 2013, all holders of the series A and B Preferred Shares gave notice to convert the series A and B Preferred Shares into Ordinary Shares in 91 Wireless on a 1 to 1 basis. A gain on changes in fair value of conversion option derivative liabilities of RMB30.3 million was recorded for the first half of 2013, as compared to a net loss on derivative financial instruments of approximately RMB23.3 million for the corresponding half in 2012. Net profit attributable to owners of the Group for the first half of 2013 increased 135% to approximately RMB236.4 million, as compared to RMB100.8 million in the first half of 2012.

Set out in Table 3 below is a summary of the consolidated assets and liabilities of the Group as at 31 December, 2010, 2011 and 2012, and 30 June, 2013.

Table 3 — Summary of consolidated assets and liabilities of the Group as at 31 December, 2010, 2011 and 2012, and 30 June, 2013

	As at 31 December,			As at 30 June,
	2010	**2011**	**2012**	**2013**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Bank balances and cash	877,823	1,428,928	1,142,825	1,409,797
Bank deposits	340,828	40,000	394,081	425,713
Pledged bank deposit	—	—	194,405	—
Other current assets	68,392	87,059	151,209	202,673
Non-current assets	272,897	340,833	562,833	679,466
Total assets	**1,559,940**	**1,896,820**	**2,445,353**	**2,717,649**
Liabilities and Equity				
Short term debts				
Secured bank borrowing	—	—	183,595	—
Promissory notes	—	30,623	—	—
	—	30,623	183,595	—
Other current liabilities	108,783	195,696	329,670	401,542
Current liabilities	108,783	226,319	513,265	401,542
Redeemable convertible preferred shares	—	131,675	195,115	—
Conversion option derivative liability	—	39,932	314,829	—
Deferred tax liabilities	—	—	6,141	17,959
Total liabilities	**108,783**	**397,926**	**1,029,350**	**419,501**
Net debt (Note a)	**(877,823)**	**(1,226,698)**	**(449,286)**	**(1,409,797)**
Equity attributable to				
— owners of the Company	1,451,697	1,499,352	1,393,849	1,979,827
— non-controlling interests	(540)	(458)	22,154	318,321
Total equity	**1,451,157**	**1,498,894**	**1,416,003**	**2,298,148**
Net asset value per Share attributable to owners of the Company	RMB2.76	RMB2.87	RMB2.71	RMB3.87
Gearing ratio	Nil	Nil	0.13	Nil
Current ratio	11.83	6.88	3.67	5.08

Source: Annual reports and interim results announcement of the Company for the relevant years or period.

Notes:

a. Net debt is calculated by deducting cash and cash equivalents from total short term debts comprising secured bank borrowings and promissory note and long term debts comprising redeemable convertible preferred shares and conversion option derivative liability.

b. Gearing ratio is calculated as total bank loans divided by total equity.

The Group had a strong balance sheet in the past three financial years and as at 30 June, 2013. Bank balances and cash together with bank deposits and pledged bank deposit amounted to RMB1,835.5 million as at 30 June, 2013. Non-current liabilities as at 31 December, 2012 included Preferred Shares of approximately RMB195.1 million and a conversion option derivative liability of approximately RMB314.8 million. After the conversion of all the Preferred Shares into ordinary 91 Wireless Shares on 27 March, 2013, the Group did not record any liabilities in respect of the Preferred Shares. As such, the Group had net assets of RMB2,298.1 million as at 30 June, 2013 (31 December, 2012: RMB1,416.0 million). Given the abundant cash resources, the Group had no positive net debt as at 31 December, 2010, 2011 and 2012, and 30 June, 2013.

Business and financial performance of 91 Wireless

91 Wireless, a company incorporated in the Cayman Islands on 4 January, 2011, is a 57.41% owned subsidiary of the Company as at the Latest Practicable Date. Following the Merger, 91 Wireless will have only one shareholder that is Baidu HK.

91 Wireless is a fast-growing PRC mobile Internet operator. As disclosed in the Group's annual report for the year ended 31 December, 2012, the Group developed a portfolio of smartphone applications under the name "91" for a wide range of smartphone platforms, and content library tailored to Chinese Smartphones users. Among these applications, the most representative ones were 91 Assistant* (91助手) and HiMarket* (安卓市場), both of which were third party mobile apps stores. 91 Wireless Group is engaged in three main line of business as described below:

a. Provision of mobile advertising and promotional services on the proprietary 91 Smartphone Apps Marketplaces that comprise 91 Assistant and HiMarket, and Community Websites such as http://sj.91.com (91 手機娛樂) that supplies news and information on Android-based and, or iOS-based mobile devices, and to a lesser extent, on 91 Panda Reader;

b. Provision of mobile value-added services which represented the mobile Internet business limb of the Group, namely:

   — distribution service for smartphone games developed by third parties on the 91 Smartphone Apps Marketplaces and Community Websites; and

   — distribution of smartphone applications and mobile items such as themes, ebooks, music, wallpapers, ringtone, etc., that are either developed by 91 Wireless or by other third parties, and are available for download at a cost or free of charge from the proprietary 91 smartphone platform.

c. Operation of 91 Smartphone Games.

   The operation of 91 Smartphone Games on 91 Smartphone Apps Marketplaces and, or other mobile platforms and that generates revenue by sale of virtual items offered in 91

Smartphone Games. Pursuant to the revised framework agreement dated 1 February, 2013 entered into between the Company and 91 Wireless, the 91 Smartphone Games were to be transferred to the Company for a consideration of RMB4,200,000 and the Company agreed to grant a right to 91 Wireless for carrying out adaption work to convert online games owned by the Company to a version which is compatible with, and can be operated on platforms of 91 Wireless and other third parties. The Company is to pay service fees to 91 Wireless calculated based on the cost of employees engaged for the adaptation work. and 91Wireless is to share revenue with the Remaining Group generated from the operation of the 91 Smartphone Games. On 14 August, 2013, 91 Wireless and the Company entered into a supplementary agreement to the revised framework agreement under which the Company and 91 Wireless agreed that, upon the Effective Time, the previous arrangements including those relating to payment of fees and sharing of revenue set out in the revised framework agreement will be terminated.

The customers of 91 Wireless Group include advertising customers that are mainly Internet companies, mobile Internet companies and other companies, and non-advertising customers such as third party game developers and content providers and individual end-users who purchase smartphone games.

Set out in Table 4 below are the highlights of the financial results of 91 Wireless Group for the past two years:

Table 4 — Highlights of the financial results of 91 Wireless Group for the two years ended 31 December, 2011, 31 December, 2012 and the three months ended 31 March, 2013.

	Year ended 31 December,		**Three-month period ended 31 March,**	
	2011	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Mobile advertising and promotional services	33,304	155,868	20,450	69,799
Mobile value-added services				
— Smartphone Games developed by third parties	7,307	85,425	8,237	64,178
— Other Resources	3,312	7,362	2,130	5,244
Operation of 91 Smartphone Games	4,014	32,327	4,143	3,870
Others	796	3,998	—	2,451
Total revenue	48,733	284,980	34,960	145,542
	(equivalent to about HK$61.89 million)	*(equivalent to about HK$361.93 million)*	*(equivalent to about HK$44.40 million)*	*(equivalent to about HK$184.84 million)*
Cost of revenue	(13,409)	(61,951)	(7,300)	(25,849)
Gross profit	35,324	223,029	27,660	119,693
Gross profit margin	72.5%	78.3%	79.1%	82.2%
Operating (loss)/profit	(14,056)	83,616	(949)	68,474
EBITDA	(13,484)	84,560	(854)	69,031
Gain/(Loss) on changes in fair value of conversion option derivative liabilities	(18,192)	(286,453)	(2,651)	36,427
Finance costs	(2,877)	(26,653)	(5,921)	(11,341)
Profit/(Loss) before tax	**(36,710)**	**(231,793)**	**(9,747)**	**94,475**
	(equivalent to about HK$(46.62) million)	*(equivalent to about HK$(294.38) million)*	*(equivalent to about HK$12.38 million)*	*(equivalent to about HK$119.98 million)*
Income tax expense	—	(28,226)	—	(23,208)
Profit/(Loss) for the year/period attributable to				
— owners of the Company	(36,710)	(259,994)	(9,747)	71,268
— non-controlling interests	—	(25)	—	(1)

	Year ended 31 December,		Three-month period ended 31 March,	
	2011	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit/(Loss) for the year/period	**(36,710)** *(equivalent to about HK$(46.63) million)*	**(260,019)** *(equivalent to about HK$(330.22) million)*	**(9,747)** *(equivalent to about HK$12.38 million)*	**71,267** *(equivalent to about HK$90.51 million)*
Profit/(Loss) per share attributable to ordinary equity holders of the parent company	N/A	N/A	N/A	N/A
Aggregate dividends paid and declared per Share	(see note below)	Nil	Nil	Nil

Note: Other than 381,000 ordinary 91 Wireless shares issued to NetDragon (BVI) as special dividend on 8 August, 2011, 91 Wireless Group has not declared or paid any dividends since incorporation.

Source: Audited financial statements of 91 Wireless Group for the relevant years.

During the year ended 31 December, 2012, total revenue of 91 Wireless Group increased 5.8 times to approximately RMB285.0 million (2011: RMB48.7 million). Revenue generated from provision of mobile advertising and promotional services amounted to approximately RMB155.9 million during the 2012 financial year, representing about 54.7% of the total revenue for the same period. In 2012, 91 Wireless Group recorded an increase in both the number of advertising customers and unit price of advertising space. Revenue for the three months ended 31 March, 2013 increased 4.1 times to RMB145.5 million, compared to the three months ended 31 March, 2012, and represented slightly more than one half of the revenue for the year ended 31 December, 2012. It is noted that the entire flagship of 91 Smartphone Apps Marketplaces and 91 Smartphone Apps is instrumental to the success of the advertising business of 91 Wireless Group as it can enhance the loyalty of mobile device users/customers to use the 91 smartphone platform.

The second largest source of revenue is derived from mobile value-added services relating to Smartphone games developed by third parties, and contributed from approximately 15.0%, 30.0% and 44% of the total revenue of 91 Wireless Group in 2011, 2012 and the three months ended 31 March, 2013 respectively. Revenue generated from Smartphone Games mobile value-added services increased 11.7 times to approximately RMB85.4 million in 2012 from the previous year. The number of third party games distributed through the 91 Smartphone Platform increased from about 100 games as at 31 December, 2011 to about 500 games as at 31 December, 2012. Revenue from mobile value added services relating to Smartphone Games increased 7.8 times to RMB64.2 million for the three months ended 31 March, 2013 compared to the corresponding period in 2012.

Gross profit increased about 6.3 times to RMB223.0 million in 2012, and gross profit margin increased slightly to 78.3% (2011: 72.5%). Gross profit margin further increased to 82.2% for the three months ended 31 March, 2013. Operating profit of RMB83.6 million was recorded for the 2012 financial year compared to an operating loss of RMB14.1 million in the last financial year. Operating profit margin was about 29.3 % for the 2012 financial year.

Loss for the year ended 31 December, 2012 of approximately RMB260.0 million was largely due to the a loss on changes in fair value of conversion option derivative liabilities relating to the Preferred Shares of RMB286.5 million (2011: RMB18.2 million). As mentioned above, 91 Wireless issued Preferred Shares in 2011 and 2012 that are accounted for with both liability component and conversion option derivatives under Hong Kong Accounting Standard 32 and 39. The conversion option derivatives are measured at fair value with subsequent changes recognised as a profit or loss and recorded as a loss on changes in fair value of conversion option derivative liabilities. While such loss has a negative impact on the income statement for each of the two years ended 31 December, 2011 and 2012, it has no impact on the cash flows of 91 Wireless Group. On 27 March, 2013, all holders of the Preferred Shares converted their respective Preferred Shares into Ordinary Shares. Accordingly, the 91 Wireless Group's income statement will not be affected by changes in fair value of conversion option derivative liabilities for the period subsequent to 27 March, 2013 when conversion of the Preferred Shares took place. As such, 91 Wireless Group posted a profit for the three months ended 31 March, 2013 was RMB71.3 million.

Set out in Table 5 below is a summary of the consolidated assets and liabilities of 91 Wireless Group as at 31 December, 2011 and 2012.

Table 5 — Summary of consolidated assets and liabilities of 91 Wireless Group as at 31 December, 2011, 31 December, 2012 and 31 March, 2013

	As at 31 December,		As at 31 March,
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Assets			
Cash and cash equivalents	194,216	233,818	606,150
Time deposits with original maturity of more than three months	—	102,454	102,183
Other current assets	13,579	54,325	76,491
Non-current assets	5,358	30,981	32,241
Total assets	**213,153**	**421,578**	**817,065**
Liabilities and Equity			
Current liabilities	73,984	138,962	204,843
Redeemable convertible preferred shares	131,666	214,800	—
Conversion option derivative liability	40,299	331,223	—
Deferred tax liabilities	—	5,840	11,001
Total liabilities	**245,949**	**690,825**	**215,844**
Net debt	8,375	312,205	(606,150)
Equity attributable to			
— owners of the parent company	47	49	86
— non-controlling interests	—	(25)	(26)
Reserves	(32,843)	(269,271)	601,161
Total equity	**(32,796)**	**(269,247)**	**601,221**
Net asset value per Share attributable to owners of the company	N/A	N/A	N/A
Current ratio	2.8 times	2.8 times	3.8 times

Source: Audited financial statements of 91 Wireless Group for the relevant years.

As shown in the Table 4 above, 91 Wireless Group had a strong cash position as at 31 December, 2011 and 2012. This was mainly as a result of the issue of promissory notes of US$5 million and Preferred Shares of approximately US$24.0 million in 2011, and the issue of Preferred Shares of US$5.0 million in 2012. The cash position was further strengthened as at 31 March, 2013 due to strong operating cash flows and the issue of Preferred Shares of US$17.5 million on 10 January 2013 at US$2.49 per Preferred Share.

91 Wireless Group had net liabilities of approximately RMB32.8 million as at 31 December, 2011 and RMB 269.2 million as at 31 December, 2012 that were mainly due to the non-current liabilities relating to the Preferred Shares and the recognition of conversion option derivative liability totaling RMB172.0 million as at 31 December, 2011 and RMB546.0 million as at 31 December, 2012. The increase in these non-current liabilities from 31 December, 2011 to 31 December, 2012 was due to the increase in both of the fair value and the number Preferred Shares issued. As all Preferred Shares were converted into Ordinary Shares on 27 March, 2013, the net assets of 91 Wireless Group rose to RMB601.2 million as at 31 March, 2013.

Recent business developments relating to 91 Wireless

91 Wireless Group continued to achieve a stable business growth in its mobile Internet business in the PRC subsequent to 31 December, 2012. For the three months period ended 31 March, 2013, 91 Wireless Group recorded an increase of approximately 104,000 and 85,000 Smartphone Apps and Smartphone Games under 91 Assistant and HiMarket (both of which are proprietary Smartphone Apps of 91 Wireless Group), respectively. The total number of registered users grew from 339.3 million as at 31 December, 2012 to 372.6 million as at 31 March, 2013. For the three months ended 31 March, 2013, 91 Wireless Group had approximately 90 new customers and approximately 135 new third party game developers. While the cost of revenue and in particular, server service cost and cost incurred with suppliers, during the quarter ended 31 March, 2013 increased accordingly, the gross profit margin of 91 Wireless Group had not been adversely affected.

Reasons for, and benefits of, the Merger

The Directors are of the opinion that the Merger represents a good opportunity for the Group to realise its investment and development in 91 Wireless Group at a fair and reasonable price and enables the Group to strengthen further its current cash-flow and liquidity positions to increase the general working capital and cash resources for the other businesses of the Group and any future potential investment opportunities that may arise from time to time.

Use of proceeds from the Merger

The Directors intend to apply the net proceeds from the Merger of US$1,059.61 million, equivalent to approximately HK$8,220.34 million, for the following purposes:

(a) 50% will be used as special dividend to the Shareholders, which means approximately HK$8.07 per Share based on 509,057,673 Shares in issue as at the Latest Practicable Date;

(b) 20% will be used for further investment in the Group's existing business, such as expanding the game business including mobile games, launching new games, upgrading the game content of various existing online game, expanding its overseas market, providing additional capital to enhance the research and development of online game and the operational capability of the Group's existing operations;

(c) 10% will be used for potential merger and acquisition opportunities in the mobile game business and other attractive opportunities;

(d) 10% will be used to capture the new high growth opportunities such as educational and SME software by expanding the existing team and strengthening the Group's commitment to research and development and sales & marketing of these high growth businesses;

(e) 10% will be applied as working capital and for the general corporate purposes of the Group.

In relation to the intended application of the net proceeds from the Merger for investment in educational and SME software as described in paragraph (d) above, the Group is looking into the development of new revenue source via the development of online education platform and provision of education products and resources. (Please refer to the sub-section headed "Business and Future Prospects of the Remaining Group" for further details.)

Net asset value and price to book ratio

91 Wireless Group recorded net liabilities of approximately RMB32.8 million as at 31 December, 2011 and RMB269.2 million as at 31 December, 2012, and recorded net assets of approximately RMB601.2 million as at 31 March, 2013. The Merger Valuation of US$1.9 billion is substantially higher than the reported net asset value of 91 Wireless Group per Share over the past two financial years. Based on the net assets of approximately RMB601.2 million as at 31 March, 2013, the price to book ratio of 19.3 times implied by the Merger Valuation of US$1.9 billion is substantially higher than the average and median price to book ratio of 6.0 times and 3.8 times respectively of the comparable companies as shown in Table 6 below.

Price earnings ratio

91 Wireless Group had a net loss attributable to owners of the company of approximately RMB36.7 million and RMB260.0 million for each of the two years ended 31 December, 2011 and 2012, respectively. The trailing net loss attributable to owners of the company for the 12 months period ended 31 March, 2013 was approximately RMB179.0 million. Had the gain or loss on changes in fair value of conversion option derivative liabilities been excluded, 91 Wireless Group would have recorded a net loss attributable to owners of 91 Wireless of approximately RMB18.5 million, a net profit attributable to owners of 91 Wireless of approximately RMB26.4 million and a net profit of RMB68.4 million for each of the two years ended 31 December, 2011 and 2012, and the trailing 12 months period ended 31 March, 2013, respectively. While it is noted that the gain or loss on changes in fair value of conversion option derivative liabilities (which has been recurring in 2011, 2012 and the three months ended 31 March, 2013) had a significant impact on the net profit or loss attributable to owners of 91 Wireless for the periods mentioned, we consider that it is appropriate to consider the price to earnings ratio if 91 Wireless Group records a net profit for the periods under review. Given the net loss attributable to owners of 91 Wireless for the past two financial years and the trailing 12 months period ended 31 March, 2013, we have therefore not considered the price to earnings ratio implied by the Merger Valuation.

Companies comparable to the Group and 91 Wireless Group

Set out below is data on companies that we find comparable to some degree by virtue of being in one or more of the same lines of business as 91 Wireless Group; and their businesses and, or target markets are in the same geographical area as that of 91 Wireless Group. Shareholders should note that the business, operation and prospect of 91 Wireless Group are not exactly the same as the comparable companies. However, in our judgement, the companies set out in Table 6 represent an exhaustive list of companies we consider as fair and representative for comparison.

Table 6 — Comparable Companies

Company name	**Stock Exchange**	**Market Capitalisation** *(US$ Million)*	**Revenue for the latest trailing 12 months** *(US$ million)*	**Trailing 12 months net profit/ (loss)** *US$ million*	**Price to book ratio** *(times)*	**Price to earnings ratio** *(times)*	**Price to sales ratio** *(times)*	**EV to EBITDA ratio** *(times)*	**Dividend yield** *%*
Kingsoft Corp. (Stock code: 3888)	Hong Kong	2,794.6	233.7	92.0	5.9	29.0	9.5	15.1	0.6
Changyou (Stock Code: CYOU)	NASDAQ	1,604.8	623.4	300.9	2.1	5.4	2.3	3.3	12.6
Giant Interactive (Stock Code: GA)	New York Stock Exchange	1,978.6	345.4	175.2	3.8	10.3	5.4	3.8	5.6
Netease (Stock code: NTES)	NASDAQ	9,386.7	1,316.3	640.7	3.2	14.7	6.7	8.3	1.4
Shanda Games (Stock code: GAME)	NASDAQ	1,081.9	742.1	174.1	1.4	6.1	1.5	2.6	—
Qihoo 360 Technology (Stock code: QIHU) *(Note 6)*	New York Stock Exchange	10,504.4	329.0	64.2	18.7	208.7	28.7	53.4	—
YY Inc. (Stock code: YY)	NASDAQ	2,528.1	130.0	36.0	11.9	70.1	19.5	25.7	—
Sohu.com Inc. (Stock code: SOHU)	NASDAQ	2,470.9	1,067.2	97.3	2.1	27.0	2.0	5.5	—
Sina Corp. (Stock code: SINA)	NASDAQ	5,455.5	529.3	(12.5)	4.8	N/A	9.5	N/A	—
Tencent Holdings (Stock code: 700) *(Note 5)*	Hong Kong	95,623.4	6,956.6	2,306.9	12.5	40.1	11.2	22.5	0.3
Baidu Inc. (Stock code: BIDU) *(Note 5)*	NASDAQ	47,772.2	3,535.2	1,679.7	9.4	27.9	11.5	14.3	—
				Maximum*	**18.7**	**208.7**	**28.7**	**53.4**	**12.6**
				Minimum*	**1.4**	**6.4**	**1.5**	**2.6**	**—**
				Average*	**6.0**	**46.4**	**9.4**	**14.7**	**2.2**
				Median*	**3.8**	**20.8**	**6.7**	**6.9**	**—**

** excluding outliers, namely Tencent Holdings and Baidu Inc.*

The Company		1,117.3	175.7	28.0	3.5	39.2	5.0	10.7	1.2
91 Wireless		N/A	64.8	(29.3)	19.3	N/A	29.3	71.2	N/A

Source: Bloomberg and company financial reports available as at the Latest Practicable Date.

Notes:

1. The ratios for 91 Wireless stated in Table 6 above have been calculated based on the Merger Valuation of US$1.90 billion.

2. Price to earnings multiples of the comparable companies are calculated based on the closing price of the relevant shares as quoted on Bloomberg as at the Latest Practicable Date and trailing earnings per share of the relevant company for the twelve months ended 31 December, 2012.

3. Enterprise value to EBITDA multiples of the comparable companies are calculated based on the enterprise value and trailing EBITDA of the comparable companies for the last twelve months. Enterprise value is calculated as market capitalisation plus debt, minority interest and preferred shares, minus total cash and cash equivalents. EBITDA is calculated as the sum of operating profit, depreciation and amortisation expenses.

4. The dividend yield is calculated by dividing the aggregate dividends paid and declared per share in respect of the most recent financial year of the relevant company by its closing price of the shares as at the end of the financial year.

5. Comparable companies with market capitalisation of less than US$10.0 billion, equivalent to approximately HK$77.6 billion have been selected for calculating the maximum and minimum range, and average and medium ratios.

6. The high price to sales ratio of Qihoo 360 Technology is mainly due to the significant increase in their respective share price during 2013 as compared to 2012.

7. Kingsoft Corporation, Changyou.com Limited, Giant Interactive Group Inc., Netease, Inc., Shanda Games Limited, and YY Inc., develop and, or operate online games in China and, or offers online advertising services that are comparable to some extent with the operation of 91 games of 91 Wireless Group. NetEase, Inc. also develops mobile applications that are comparable to the Smartphone application business of 91 Wireless Group. Sohu.com Inc operates a web-based platform that is comparable to some degree with the 91 mobile platform for offering various value-added services. SINA Corporation and Baidu, Inc. offer through their websites online news and information that are comparable to some degree with the Community Websites of 91 Wireless Group that supplies news and information. Tencent Holdings Limited provides Internet mobile value-added services in China and that are comparable to some degree with the provision of mobile value-added services business of 91 Wireless Group. The table below shows the businesses of the comparable companies:

Company Name	**Business Description**
Kingsoft Corp.	Kingsoft Corporation Ltd. develops and markets computer software. The company develops role-playing computer games and security, word processing, and spreadsheet software.
Changyou	Changyou.com Ltd. develops online computer games. The company licenses its massively multi-player online role playing games.
Giant Interactive	Giant Interactive Group Inc. develops online games. The company focuses on multiplayer online, or MMO, games that are played through networked game servers in which players are able to simultaneously connect and interact.
Netease	NetEase, Inc. is an Internet technology company that develops applications, services and other Internet technologies in China. The company's core businesses consist of email service, web portal and online entertainment, including online gaming services. NetEase also offers online advertising, search, mobile applications and e-commerce.

Shanda Games	Shanda Games Ltd. develops, sources and operates Internet games in China.
Qihoo 360 Technology	Qihoo 360 Technology Co. Ltd. supplies Internet security services. The Company researches, designs, develops, Internet security software and sells third party anti-virus software. Qihoo 360 Technology also provides system optimisation products, internet value-added services including games developed by third parties and online advertising services.
YY Inc.	YY Inc is a communication social platform that engages users in real-time online group activities through voice, text and video. The company's platform is currently free, the company monetises its user base through internet services, or IVAS, and online advertising.
Sohu.com Inc.	Sohu.com Inc. operates an Internet portal in China. The company's Web site consists of Chinese language Web navigational and search capabilities, Web-based communications services, and a platform for e-commerce services. The company is also engaged in online advertising business and offers mobile related services.
Sina Corp.	SINA Corporation is a global Internet media company operating Chinese-language destination sites. The company offers a network of branded content and services targeting people of Chinese descent worldwide. SINA.com offers online news, entertainment, community, and commerce through web sites that are produced and updated by local teams in China, Hong Kong, Taiwan, and North America.
Tencent Holdings	Tencent Holdings Limited provides Internet, mobile, and telecommunication value-added services in China. The company has an instant messaging community in China. Tencent also provides online advertising services.
Baidu Inc.	Baidu, Inc. operates an Internet search engine. The company offers algorithmic search, enterprise search, pay for performance and news, MP3, and image searches.

Price to sales ratio

We have compared the price to sales ratio implied by the Merger Valuation with price to sales ratio of comparable companies shown in Table 6 in this letter. Based on the revenue of 91 Wireless Group of approximately US$64.8 million for the trailing 12 months ended 31 March, 2013, the price to sales ratio implied by the Merger Valuation of US$1.9 billion is about 29.3 times. It is noted that this price to sales ratio is substantially higher than the average and median price to sales ratio of 9.4 times and 6.7 times respectively of comparable companies as shown in Table 6 above.

Enterprise value to EBITDA ratio

We have compared the enterprise value to EBITDA ratio ("**EV/EBITDA**") of 91 Wireless Group with EV/EBITDA ratio of comparable companies shown in Table 6 in this letter. It is noted that the EV/EBITDA ratio of 91 Wireless Group of 71.2 times is substantially higher than the average and median EV/EBITDA ratio of 14.7 times and 6.9 times respectively of comparable companies as shown in Table 6 in this letter.

Comparable transaction analysis

In addition to the comparable companies in Table 6, we have looked for valuation benchmarks from comparable market transactions in the sector in Hong Kong and the PRC but we have not identified a transaction that we find comparable in any useful way.

Comparison with terms of the Preferred Shares

After the incorporation on 4 January, 2011, 91 Wireless had conducted a number of rounds of fund raising activities that comprised mainly through the issue of series A Preferred Shares and series B Preferred Shares to corporate investors.

The details of the investment in the Preferred Shares made by corporate investors, excluding those investors who are senior management or employees of the Company, are summarised below:

Name of Investors	Date of Investment	Amount of consideration paid	Cost per Preferred Share	Shareholding interest in 91 Wireless upon full conversion on the date of investment or the date on which conversion price is determined	Implied valuation *(Note a)* *US$ million*
Series A Preferred Shares					
IDG-Accel China Growth Fund L.P.	30 May, 2011	US$3,082,677	US$0.26	13.76%	22.4
IDG-Accel China Growth Fund-A L.P.	30 May, 2011	US$629,975	US$0.26	2.81%	22.4
IDG-Accel China Investors L.P.	30 May, 2011	US$287,188	US$0.26	1.28%	22.4
Stonewell Resources	11 November, 2012	Acquisition from the IDG Investors	—		
Convertible Promissory Notes (which were converted into Series B Preferred Shares on 17 February, 2012)					
IDG-Accel China Growth Fund L.P.	14 September, 2011	US$3,853,500	US$1.2480499 per Series B Preferred Share	2.60%	148.0

Name of Investors	Date of Investment	Amount of consideration paid	Cost per Preferred Share	Shareholding interest in 91 Wireless upon full conversion on the date of investment or the date on which conversion price is determined	Implied valuation *(Note a)* *US$ million*
Convertible Promissory Notes (which were converted into Series B Preferred Shares on 17 February, 2012)					
IDG-Accel China Growth Fund-A L.P.	14 September, 2011	US$787,500	US$1.2480499 per Series B Preferred Share	0.53%	148.0
IDG-Accel China Investors L.P.	14 September, 2011	US$359,000	US$1.2480499 per Series B Preferred Share	0.24%	148.0
Series B Preferred Shares					
Vertex	9 December, 2011	US$10,000,000	US$1.2480499	7.14%	140.0
IP Cathay II	9 December, 2011	US$5,000,000	US$1.2480499	3.57%	140.0
DT Capital	9 December, 2011	US$5,000,000	US$1.2480499	3.57%	140.0
Pacific Century	10 January, 2013	US$14,500,000	US$2.494022185	4.14%	350.0
Grandwin	10 January, 2013	US$1,500,000	US$2.494022185	0.43%	350.0
Wong Ka Kit	10 January, 2013	US$1,500,000	US$2.494022185	0.43%	350.0

Note:

1. The implied valuation of the issued ordinary shares in 91 Wireless is calculated based on the consideration paid for the Preferred Shares and the shareholding interest in 91 Wireless represented by the ordinary shares in 91 Wireless that can be converted (on a 1:1 ratio) from the Preferred Shares as at the date of the investment, and as previously announced by the Company.

While IDG Investors are members of the IDG Group which is regarded as a connected person of the Company in terms of Chapter 14A of the Listing Rules by virtue of being a substantial shareholder of the Company and being entitled to exercise 10% of more of voting power at a general meeting of 91 Wireless, it is noted that IDG Group's shareholding interest in the Company is 15.34% as at the Latest Practicable Date and it is not a controlling shareholder of the Company, and furthermore, IDG Investors are investments funds and institutional investors in the Company. In the circumstance, we consider it appropriate to include in our analysis the implied valuation of the Preferred Shares subscribed by IDG Investors in 2011.

On 27 March, 2013, all the holders of the Preferred Shares converted their respective Preferred Shares into ordinary shares in 91 Wireless based on a conversion ratio of 1:1. The shareholding interest percentage of each holder of the Preferred Shares remained unchanged. After the conversion, the ordinary shares in 91 Wireless is the only class of shares in 91 Wireless.

The Merger Valuation of US$1.90 billion represents a premium ranging from about 5.4 times to 84.8 times the implied valuation of Preferred Shares subscribed by corporate investors during the period from May, 2011 to January, 2013. In particular, it is worth noting that the latest tranche of Series B Preferred Shares that were issued to independent investors eight months ago at approximately US$2.494 each, carried an implied valuation of some US$350 million, representing a 81.6% discount to the Merger Valuation. We consider the premium of the Merger Valuation over the prices at which Preferred Shares were issued to third party investors during the period from 2011 to 2013 to be substantial.

Business and future prospects of the Remaining Group after Closing

Following Closing, the Company will discontinue the mobile Internet business comprising mobile advertising and promotional services, and mobile value-added services. The Remaining Group intends to maintain its leading market position in the PRC's online game industry, and seek market opportunities in the online game industries in both the PRC and overseas markets with a focus on emerging markets. The Remaining Group shall be principally engaged in online game development, including game design, programming and graphics, and online game operation. Timely online game upgrades will be launched from time to time to maximise the lifespan of the Group's existing online games and enrich the contents of the existing games**.** The Group will continue to develop new games and invest in the development of new massively multiplayer online role-playing games ("**MMORPGs**") that are considered to have market potential in order to extend its product lines. Further, the Remaining Group will continue to introduce new expansion packs to enrich its existing games, such as provision of additional in-game virtual items and premium features.

Upon completion of the Disposal, the Directors consider that the Remaining Group will maintain sufficient level of operation and value of tangible and, or intangible assets to warrant continued listing of the Company on the Stock Exchange.

In addition, as disclosed in the Company's annual report for the year ended 31 December, 2012, the Group is interested in Fujian Tian Yu Education that is a professional company focusing on research and development of online education platform and operation of education products. The Group intends to expand the Internet education platform it developed to provide open education resources mainly to users located in Fujian Province, the PRC.

The Group expects that competition in the online game industry will intensify in the future and the overall growth in the industry will slow down as the industry matures. The Group aims to strengthen its core competitiveness in the online game industry by implementing employee training programmes and recruiting experienced game developers, market operators and graphic designers to enhance the quality of its online game products.

The Group will continue its participation in the development project in the Haixi Animation Creativity Project in Haixi District, Fujian Province, the PRC. The project is a key leading project in the cultural creativity industry in Linkonggang Economic Zone of Suzhou City and is being constructed in 2013. The Group acquired a piece of land located at Dahe Village of Hunan Town and Shibi Village of Wenling Town, Changle City, Fujian Province, the PRC in 2012. As at 31 March, 2013, the Group had capital commitments in relation to the development project of approximately RMB395.7 million, of which the Group had paid up approximately RMB253.1 million.

Based on the terms of the ND Deed of Undertaking, the Company and NetDragon BVI have jointly and severally undertaken to Baidu HK and Merger Sub not to and procure the subsidiaries and/or controlled entities of the Company and NetDragon BVI not to, for a period of two years from the consummation of the Merger, carry on or acquire, hold or be otherwise beneficially interested in 50% or more equity interests in any business which is in competition with the business of the Surviving Group, namely the Restricted Business;

As at 31 December, 2012, total bank loan of the Remaining Group amounted to approximately RMB183.60 million. Gearing ratio (being consolidated bank loan/consolidated total equity) of the Remaining Group was low at 0.024 as at 31 December, 2012 (31 December, 2011: Nil).

Comparison with historic market capitalisation of the Group

The chart below shows the market capitalisation of the Group which is engaged in (i) online game business and (ii) mobile Internet business that is conducted through 91 Wireless Group that is the subject of the Disposal, from 4 January, 2011 when 91 Wireless was incorporated to 15 July, 2013 when the Memorandum of Understanding was announced by the Company.

Market Cap (in HK$ millions)

Total amount to be received by the Company upon Closing, including its entitlement to special dividends totaling approximately US$29.89 million (equivalent to approximately HK$231.9 million) of HK$8,456 million

The total amount to be received by the Company upon completion of the Disposal of US$1.09 billion (equivalent to approximately HK$8,456 million) and which includes a special dividend of US$29.89 million (equivalent to approximately HK$231.9 million) represents:

— a premium of 18.22% to the average market capitalisation of the Group of HK$7,153 million during the 90 trading days prior to 15 July, 2013 when the Memorandum of Understanding was announced by the Company;

— a premium of 37.38% to the average market capitalisation of the Group of HK$6,155 million during the 180 trading days prior to 15 July, 2013 when the Memorandum of Understanding was announced by the Company; and

— a premium of 135.22% to the average market capitalisation of the Group of HK$3,595 million during the period from 4 January, 2011 when 91 Wireless was incorporated to 15 July, 2013 when the Memorandum of Understanding was announced by the Company;

We consider the premium of the total amount to be received by the Company upon completion of the Disposal over the market capitalisation of the Group, of which the 91 Wireless Group forms a part and the Remaining Group's online game business recorded a 11.1% annual growth in revenue during the first half of 2013, to be high. (Note: We consider the comparison based on the 90 and 180 trading days period prior to 15 July, 2013 as stated above to be appropriate.)

Other matters for Independent Shareholders to consider

As mentioned above, the Company is in the process of obtaining the Listing Approval for the listing of 91 Wireless Shares on the GEM. If Closing takes place, the Proposed Spin-off and the Proposed Listing will not be effective and vice versa. Given that high price to sales ratio of 29.3 times and EV/EBITDA ratio of 71.2 times implied by the Merger Valuation, and the fact that the Company will receive net proceeds of approximately US$1,059.61 million upon Closing, we consider that the terms of the Merger to be more attractive in terms of immediate amount of working capital that will be available to the Group than Proposed Spin-Off and Proposed Listing by way of an introduction.

Financial effects of the Merger

Working capital

Based on the total consideration receivable by the Company upon Closing of about US$1.09 billion (equivalent to approximately HK$8,456 million), it is estimated that the net proceeds to be received by the Group from the Merger amount to US$1,059.61 million (equivalent to approximately HK$8,220.34 million after deducting transaction costs and dividend to be received.

As at 31 December 2012, the Group had cash and cash equivalents of approximately RMB1,142.8 million (equivalent to approximately HK$1,451.4 million) and net current assets (being current assets less current liabilities) of approximately RMB1,369.3 million (equivalent to approximately HK$1,739.0 million). Based on the unaudited pro forma consolidated statement of financial position of the Remaining Group as set out in Appendix II to this circular which is prepared on the assumption as if (i) the Disposal took place on 31 December, 2012, the bank balances and cash of the Group would increase by approximately RMB6,421.5 million to RMB7,564.3 million (equivalent to approximately HK$9,606.7 million) mainly as a result of the receipt of consideration receivable under the Merger of RMB6,663.6 million and the special dividend following Closing.

Earnings

As at the Effective Time, each member of the 91 Wireless Group will cease to be a subsidiary of the Company. Accordingly, the results of 91 Wireless Group will not be consolidated into the consolidated accounts of the Group after the Effective Date.

Taking into the account of (i) the net proceeds of US$1,059.61 million (equivalent to approximately HK$8,220.34 million) to be received by the Company as mentioned above; (ii) the consolidated net liabilities of the 91 Wireless Group of approximately RMB269.25 million (equivalent to about HK$341.95 million) as at 31 December, 2012; (iii) other non-cash items of approximately RMB321.86 million (equivalent to approximately HK$408.76 million) arising from the non-controlling interests of 91 Wireless Group as if the Disposal had been completed on 31 December, 2012; (iv) adjustment for the special dividend declared to all shareholders of 91 Wireless prior to the completion of the Disposal of US$52.06 million (equivalent to approximately HK$403.88 million); (v) adjustment for the special dividend declared to the non-controlling shareholders of 91 Wireless prior to the completion of the Disposal of US$22.17 million (equivalent to approximately HK$172.00 million) and (vi) adjustment for redeemable convertible preferred shares of approximately RMB546.03 million and issuance of new shares of approximately RMB157.86 million by 91 Wireless to NetDragon BVI is expected to result in a gain before tax of approximately HK$6,542.51 million for the Group.

The actual net gain or loss from the Merger will vary and depend on, among other things, the carrying value of the Group's interest in 91 Wireless Group as at the date of Closing.

Net asset value

As at 31 December, 2012, net assets attributable to owners of the Company was approximately RMB1,393.8 million (equivalent to approximately HK$1,770.1 million). Based on the unaudited pro forma consolidated statement of financial position of the Remaining Group as set out in Appendix II to this circular which is prepared on the assumption as if the Merger had been completed as at 31 December, 2012, the net assets attributable to owners of the Company would (i) increase by approximately RMB6,187.2 million to RMB7,581.0 (equivalent to approximately HK$9,627.9 million) as a result of the Closing.

Conclusions and Reasons for our Recommendation

Having considered the foregoing, we consider that the terms of the Merger are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole for the following principle reasons:

— the Merger Valuation of US$1.90 billion (equivalent to approximately HK$14,740 million) is at a substantial premium to the net assets of the Group (that is engaged in (a) online game business to be retained and (b) mobile Internet business that will be disposed of as a result of the Merger) of RMB2,298.1 million (equivalent to approximately HK$2,918.6 million as at 30 June, 2013;

— the total consideration receivable by the Company upon Closing of US$1.09 billion (equivalent to approximately HK$8,456 million) is at a substantial premium (a) of 37.38% to the average market capitalisation of the Group of HK$6,155 million during the 180 trading days prior to 15 July, 2013 when the Memorandum of Understanding was announced by the Company, and (b) of 135.22% to the average market capitalisation of the Group of HK$3,595 million during the period from 4 January, 2011 when 91 Wireless was incorporated to 15 July, 2013 when the Memorandum of Understanding was announced by the Company;

— the price/book ratio implied by the Merger Valuation is substantially higher than those of companies comparable to 91 Wireless Group;

— the price/sales ratio implied by the Merger Valuation is substantially higher than those of companies comparable to 91 Wireless Group;

— the EV/EBITDA ratio implied by the Merger Valuation is substantially higher than those of companies comparable to 91 Wireless Group; and

— the Merger Valuation represents about 5.4 times the implied valuation of the Preferred Shares based on the initial cost of investments to the most recent group of holders of Series B Preferred Shares that were subscribed on 10 January, 2013.

Recommendation

For the reasons set out above, we consider that the terms of the Merger are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and having considered the factors set out in this letter and the reasons for our conclusions, we advise the Independent Board Committee to recommend that the Independent Shareholders to vote in favour of the resolution in relation to the Merger.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited

Stephanie Wong
Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the published financial information of the Group for each of the three years ended 31 December 2010, 2011 and 2012 are disclosed in the annual reports of the Company for the year ended 31 December 2010, 2011 and 2012 respectively. Details of these financial statements have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.netdragon.com/):

- annual report of the Company for the year ended 31 December 2010 published on 7 April 2011 (pages 82 to 146);

- annual report of the Company for the year ended 31 December 2011 published on 5 April 2012 (pages 99 to 180); and

- annual report of the Company for the year ended 31 December 2012 published on 15 April 2013 (pages 109 to 200).

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 July 2013, being the latest practicable date prior to the printing of this circular, apart from intra-group liabilities, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The directors of the Company are of the opinion that, after taking into account the financial resources available to the Remaining Group, its internally generated funds and the net proceeds to be received from the Disposal of 91 Wireless Group following completion of the Disposal, in absence of unforeseen circumstances, the Remaining Group has sufficient working capital for its present requirement for at least the next twelve months from the date of the Circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the Group or the Remaining Group.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

After Closing, the Company will discontinue (i) mobile advertising and promotional services; and (ii) mobile value-added services, which represented the mobile Internet business limb of the Group, and the Group will be principally engaged in game development, including game design, programming and graphics, and game operation. It is expected that new games, mainly massively multiplayer online role-playing games, will continually to be developed. The Group's integrated game development process in general involves game design, programming, graphics and testing. Further, the Group will continue to introduce new expansion packs to enrich its existing games, such as provision of additional in-game virtual items and premium features.

In addition, as disclosed in the Company's annual report for the year ended 31 December 2012, the Group is also interested in a professional company focusing on research and development of online education platform and operation of education products. The Group intends to expand the Internet education platform it developed to provide open education resources mainly to users located in Fujian Province, the PRC.

In view of the above, and given the fact that the Merger is consistent with the business strategy of the Group and will generate financial resources for the Group and simultaneously allow the Group to focus on other core activities where the Group enjoys competitive advantages and core competencies, the Directors are of the view that the trading prospects of the Group are optimistic.

6. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis on the Remaining Group for the three years ended 31 December 2010, 2011 and 2012:

(a) For the year ended 31 December 2012

Operating Results

For the year ended 31 December 2012, the revenue of the Remaining Group was approximately RMB823.60 million and the Remaining Group recorded profit attributable to its owners of approximately RMB299.17 million.

Due to the increase in revenue from Eudemons Online, revenue of the Remaining Group increased by 17.40% to approximately RMB823.60 million (2011: approximately RMB701.56 million), and net profit of the Remaining Group increased by 73.88% to approximately RMB298.98 million (2011: approximately RMB171.95 million) as compared with 2011.

Business Review

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

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

Launching of new games

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

Dungeon Keeper™ Online (地下城守護者OL)

Starting from 2010, the Remaining Group has carried out four closed beta testings for its first 3D MMORPG, Dungeon Keeper™ Online (previously named as World of Dungeon Keeper™ (地下城守護者世界)), and has carried out open beta testing in April 2012.

Development and licensing of existing games

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

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

For the expansion of overseas markets, the Remaining Group has continued to maintain its leading advantages among the PRC's online game operators and has launched several online game products in various countries and regions with market potential during the year under review. In respect of the self-operated games, the Remaining Group has launched the expansion pack "Invasion of Pirates"* (海盜來襲) for Conquer Online (征服) in English, French, Spanish, Arabian and Traditional Chinese versions. The Group has also launched various expansion packs in English consecutively in 2012, for example, "Catastrophe of the Worms"* (蟲族浩劫) of Zero Online (機戰) was launched in August and "Undead Mage"* (亡靈巫師) of Eudemons Online (魔域) was launched in December. The Remaining Group expected the provision of additional in-game items and premium features will bolster the popularity of its online games.

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

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

Games in the pipeline

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

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

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

Expanding of business lines

Open Education Projects in Fujian

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

** For identification purpose only*

so that the construction of a learning community in Fujian would be materialized. In the meantime, the mechanism of switching academic credits, being the "bank of academic credits", as a critical mechanism for reforming and effective implementation of open education in Fujian Province, is developed by the Remaining Group.

Liquidity and Capital Resources

As at 31 December 2012, the remaining group had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB1,395.04 million (31 December 2011: RMB1,264.71 million), out of which about RMB194.41 million (31 December 2011: Nil) has been pledged to bank to secure loan.

As at 31 December 2012, the Remaining Group had net current assets of approximately RMB1,117.62 million as compared with approximately RMB1,195.86 million as at 31 December 2011.

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

In the current year, the Remaining Group obtained new bank loan amounting to RMB183.60 million. The secured bank loan is denominated in HK$ and payable on 13 June 2013. The loan is secured by the pledged bank deposit of RMB194.41 million which is denominated in EURO.

Gearing Ratio

The gearing ratio (consolidated bank loan/consolidated total equity) was 0.13 (31 December 2011: Nil). As at 31 December 2012, total bank loan of the Remaining Group amounted to approximately RMB183.60 million was fixed rate loan.

Capital Structure

As at 31 December 2012, the Remaining Group's total equity amounted to approximately RMB1,685.30 million (2011: RMB1,531.74 million).

Foreign Currency Risk

The Remaining 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 Remaining Group also has operations in Hong Kong and the United States of America ("USA") and the business transactions conducted there during the year were mainly denominated and settled in HKD and USD respectively. The Remaining 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, the 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.

Contingent Liabilities and Capital Commitment

As at 31 December 2012, the Remaining Group did not have any material contingent liability.

As at 31 December 2012, the Remaining Group had capital commitments of approximately RMB124.44 million, which represented capital expenditure contracted for but not provided for the acquisition of property, plant and equipment.

(b) **For the year ended 31 December 2011**

Operating Results

For the year ended 31 December 2011, the revenue of the Remaining Group was approximately RMB701.56 million and the Remaining Group recorded profit attributable to its owners of approximately RMB171.87 million.

Due to the release of (i) diversified versions of Eudemons Online in the fourth quarter of 2010; (ii) the release of new Chinese expansion pack "Edge of Night" of Eudemons Online in April 2011; and (iii) the release of new Chinese expansion pack "Trumpet of Legionaire" of Eudemons Online in the fourth quarter of 2011, which enhanced the attractiveness of the game for the year, revenue of the Remaining Group increased by 31.93% to approximately RMB701.56 million (2010: approximately RMB531.77 million), and net profit of the Remaining Group increased by 508.03% to approximately RMB171.95 million (2010: approximately RMB28.28 million) as compared with 2010.

Business Review

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

Development and licensing of existing games

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

During the year under review, the Remaining Group has continued to introduce new expansion packs to enrich its existing games. In 2011, two Chinese version of expansion packs for Eudemons Online, namely "Edge of Night" (吸血聖戰) and "Trumpet of the Legionnaire" (百戰雄獅) were launched in April and October 2011, respectively, to enhance the attractiveness of the game to the players. The Chinese version of expansion pack for Conquer Online, namely "Invasion of Pirates" (海盜來襲) was launched in December 2011, while the Turkish version of Conquer Online was also released in June 2011. In December 2011, the Remaining Group launched open beta testing for iPad-based English version of Conquer Online. Meanwhile, the Remaining Group also launched an expansion pack "Soul of Steel" (鋼鐵之魂) in the Chinese version for Zero Online in March 2011 and a new expansion pack "Legend of the Oriental" (東方傳奇) for the Chinese version of Heroes of Might and Magic Online in August 2011.

For the expansion of overseas markets, the Remaining Group continued to maintain its leading advantages among the PRC's online game operators and launched several game products in various countries and regions with market potential in 2011.

In respect of self-operated games, we have launched the expansion pack "The Returning Light" for Conquer Online in French, Spanish and Arabian in the first quarter of 2011. The Turkish version and Traditional Chinese version of Conquer Online have been launched in the third quarter of 2011, respectively. The Group has also launched different English version expansion packs, such as "Phoenix Returns"* (鳳凰歸來) for Heroes of Might and Magic Online, "Edge of Night" for Eudemons Online and "Andromeda Crisis" for Zero Online in June 2011. We expected the offer of additional in-game items and premium features to bolster the popularity of its online games.

The Remaining Group has entered into other overseas markets through close cooperation with local major operators. We have licensed its own in-house developed online games in various countries, including Hong Kong, Malaysia, Macau, Taiwan, Brazil and Vietnam, to attract a larger user base. We have launched an expansion pack "Legends Return Season 3" in Brazilian version for Conquer Online in September 2011.

In October 2011, 91kt Player, jointly developed by the Company and Turner Broadcasting System Asia Pacific, Inc., the parent company of Cartoon Network, was formally launched. This product aims to bring Chinese children and adolescents the world's most popular Cartoon Network content, in association with a jointly developed website 91kt.com.

Games in the pipeline

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

Starting from 2010, the Remaining Group has carried out four closed beta testings for its first 3D MMORPG, Dungeon Keeper™ Online (previously named as World of Dungeon Keeper™), the development of this game was the first cooperation arrangement between the Remaining Group and Electronic Arts Inc. The game has undergone improvement and an open beta is expected to be carried out in 2012.

** For identification purpose only*

Liquidity and Capital Resources

As at 31 December 2011, the Remaining Group had bank deposits, bank balances and cash of approximately RMB1,264.71 million as compared with approximately RMB1,215.61 million as at 31 December 2010.

As at 31 December 2011, the Remaining Group had net current assets of approximately RMB1,195.86 million as compared with approximately RMB1,178.29 million as at 31 December 2010.

The Remaining Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Remaining Group's operations and mitigate the effects of fluctuations in cash flows. The Remaining Group's financial liabilities (including trade and other payables and accruals, amount due to related companies and promissory notes) will be settled within 12 months from the end of the reporting period. The Remaining Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Gearing Ratio

As the Remaining Group did not have any interest bearing bank loans, our gearing ratio was zero as at 31 December 2011 and 31 December 2010.

Capital Structure

As at 31 December 2011, the Remaining Group's total equity amounted to approximately RMB1,531.74 million (2010: RMB1,451.19 million).

Foreign Currency Risk

The Remaining 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 Remaining Group also has operations in Hong Kong and the United States of America ("USA") and the business transactions conducted there during the year were mainly denominated and settled in HKD and USD respectively. The Remaining 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, the 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.

Contingent Liabilities and Capital Commitment

As at 31 December 2011, the Remaining Group did not have any material contingent liability.

As at 31 December 2011, the Remaining Group had capital commitments of approximately RMB134.29 million, which represented capital expenditure contracted for but not provided for the acquisition of property, plant and equipment.

(c) **For the year ended 31 December 2010**

Operating Results

For the year ended 31 December 2010, the revenue of the Remaining Group was approximately RMB531.77 million and the Remaining Group recorded profit attributable to its owners of approximately RMB28.33 million.

Due to (i) no new games launched during the first half year of the year under review; and (ii) the continued increase in competition in overall market, revenue of the Remaining Group decreased by 14.48% to approximately RMB531.77 million (2009: approximately RMB621.84 million), and net profit of the Remaining Group decreased by 67.35% to approximately RMB28.28 million (2009: approximately RMB86.62 million) as compared with 2009.

Business Review

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

Complying with the rapid business growth momentum of mobile Internet industry in the PRC, the Remaining Group has increased its efforts to develop its mobile Internet business as another source of business growth in addition to online games.

Launch of new games

During the year under review, the Remaining Group sought to expand its product offerings by continuing to develop additional online games with its strong research and development capabilities.

Disney Fantasy Online

The open beta testing of Disney Fantasy Online, a 2.5D turn-based online game developed jointly by the Group and Disney, was carried out in May 2010. The first expansion pack of the game, namely "The Awakening of Justice", was launched in September 2010 after the open beta testing.

Tian Yuan

The open beta testing of Tian Yuan, a self-developed large-scale fantasy 2.5D MMORPG, was carried out in July 2010. The game has a number of new features with a broad story plot and over 500 major tasks. A 3D real time operation technology is also applied to improve the quality of the game.

Development and licensing of existing games

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

During the year under review, the Remaining Group has continued to introduce new expansion packs to enrich its existing games. In 2010, diversified versions of Eudemons Online were released to enhance the attractiveness of the game to the players; the Chinese versions of expansion packs of Conquer Online, namely "Legends Return" and "The Returning Light", were launched in May and November 2010, respectively; meanwhile, the Remaining Group also launched an expansion pack "Galactic Armada" for the Chinese version of Zero Online in February 2010 and the "Battle Version"* (奮門版), another new version with different playing methods, in the year under review. A new expansion pack "Phoenix Returns"*(凰凰歸來)of Heroes of Might and Magic Online was launched in November 2010.

For the expansion of overseas markets, the Remaining Group continued to maintain its leading advantages among the PRC's online game operators and launched several game products in various countries and regions with market potential in 2010.

In respect of self-operated games, the English, French, Spanish and Arabia versions of the expansion pack "Legends Return" for Conquer Online were launched. The English version expansion pack of "The Returning Light" was also launched during the year under review; the open beta testing of the English version of Heroes of Might and Magic Online, targeting the Asia Pacific market, was carried out in June 2010.

The Remaining Group has entered into other overseas markets through close cooperation with local major operators. During the year under review, open beta testings of Conquer Online and Eudemons Online were carried out in Brazil and Vietnam, respectively; the expansion pack "Demon Rising" of the traditional Chinese version of Eudemons Online has also been launched in Malaysia, Taiwan and Hong Kong; the expansion pack "The Divine Path" of the Portuguese version of Eudemons Online has been launched in Brazil; the open beta testing of the traditional Chinese version of Way of the Five were carried out in Hong Kong, Macau and Taiwan; the expansion pack "Galactic Armada" of the traditional Chinese and Vietnamese versions of Zero Online has been launched in Hong Kong and Vietnam, respectively.

** For identification purpose only*

Games in the pipeline

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

In May 2010, the Remaining Group entered into a brand licensing agreement with Hasbro, a worldwide leader in children's and family leisure time products and services, for the exclusive rights to develop an MMORPG named "TRANSFORMERS Online" based on Hasbro's iconic TRANSFORMERS brand.

During the year under review, the Remaining Group carried out two closed beta testings for its first 3D online game, World of Dungeon Keeper, the development of the game was the first cooperation arrangement between the Remaining Group and EA. The game has been improved and an open beta testing is expected to be carried out in the second half of 2011.

Liquidity and Capital Resources

As at 31 December 2010, the Remaining Group had bank deposits, bank balances and cash of approximately RMB1,215.61 million as compared with approximately RMB1,257.02 million as at 31 December 2009.

As at 31 December 2010, the Remaining Group had net current assets of approximately RMB1,178.29 million as compared with approximately RMB1,271.65 million as at 31 December 2009.

The Remaining Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Remaining Group's operations and mitigate the effects of fluctuations in cash flows. The Remaining Group's financial liabilities (including trade and other payables and accruals and amount due to related companies) will be settled within 12 months from the end of the reporting period. The Remaining Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Gearing Ratio

As the Remaining Group did not have any interest bearing bank loans, our gearing ratio was zero as at 31 December 2010 and 31 December 2009.

Capital Structure

As at 31 December 2010, the Remaining Group's total equity amounted to approximately RMB1,451.19 million (2009: RMB1,455.82 million).

Foreign Currency Risk

The Remaining 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 Remaining Group also has operations in Hong Kong and the United States of America ("USA") and the business transactions conducted there during the year were mainly denominated and settled in HKD and USD respectively. The Remaining 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, the 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.

Contingent Liabilities and Capital Commitment

As at 31 December 2010, the Remaining Group did not have any material contingent liability.

As at 31 December 2010, the Remaining Group had capital commitments of approximately RMB149.10 million, which represented capital expenditure contracted for but not provided for the acquisition of property, plant and equipment.

7. EMPLOYEE INFORMATION

As at 31 December 2010, 2011 and 2012, the Remaining Group had 2,036, 2,013 and 2,404 employees respectively, they were remunerated in accordance with their merit, qualifications, performance and market condition. The total amount of the staff cost included, but not limited to, salary, basic medical insurance, basic pension scheme and housing funds for the years ended 31 December 2010, 2011 and 2012 were approximately RMB233.56 million, RMB238.07 million and RMB263.89 million respectively.

8. SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSALS

For the three years ended 31 December 2010, 2011 and 2012, there were no significant investments, material acquisitions and disposals.

9. FUTURE PLANS FOR MATERIAL INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

As at 31 December 2010, 2011 and 2012, there was no specific plan for material investments and acquisition of capital assets.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT INC.

We have completed our assurance engagement to report on the compilation of pro forma financial information of NetDragon Websoft Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consisted of the pro forma consolidated statement of financial position as at 31 December 2012, the pro forma consolidated statement of comprehensive income for the year ended 31 December 2012, the pro forma consolidated statement of cash flows for the year ended 31 December 2012 and related notes as set out on pages 79 to 93 of the circular issued by the Company dated 11 September 2013 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on page 70 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of the entire equity interest of 91 Wireless Websoft Limited, an indirect non-wholly owned subsidiary of the Company, and its subsidiaries (hereinafter collectively referred to as the "Disposal") on the Group's financial position as at 31 December 2012 and the Group's financial performance and cash flows for the year ended 31 December 2012 as if the Disposal had taken place at 31 December 2012 and 1 January 2012 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2012, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" (the "AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed a review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2012 or 1 January 2012 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
11 September 2013

BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

On 14 August 2013, NetDragon Websoft Inc. ("NetDragon BVI"), a wholly owned subsidiary of NetDragon Websoft Inc. (the "Company") and Baidu Holdings Limited ("Baidu") entered into a sale and purchase agreement ("S&P Agreement ") pursuant to which NetDragon BVI has conditionally agreed to sell, and Baidu have conditionally agreed to purchase the entire equity interest of 91 Wireless Websoft Limited and its subsidiaries ("91 Group"). The Company together with its subsidiaries (collectively referred to as the "Group") excluding 91 Group is collectively referred to as the "Remaining Group".

Under the S&P Agreement dated 14 August 2013, the Remaining Group shall be entitled to receive an aggregate consideration of US$1.09 billion (equivalent to approximately RMB6,664 million) before a special dividend of US$29.89 million (equivalent to approximately RMB183 million). The net consideration after declaration of special dividend should be US$1.06 billion (equivalent to approximately RMB6,481 million) for the disposal of the Group's entire equity interest in 91 Group ("Disposal"), representing 57.41% equity interest of 91 Group held by the Group at 14 August 2013.

The pro forma financial information presented below is prepared to illustrate (a) the financial position of the Remaining Group as if the Disposal had been completed on 31 December 2012; and (b) the results and cash flows of the Remaining Group as if the Disposal had been completed on 1 January 2012. The pro forma financial information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Remaining Group as at 31 December 2012 or at any future date had the Disposal been completed on 31 December 2012 or the results and cash flows of the Group for the year ended 31 December 2012 or for any future period had the Disposal been completed on 1 January 2012.

The pro forma financial information is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2012; the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2012 as extracted from the published consolidated financial statements of the Company for the year ended 31 December 2012; and the consolidated financial information of 91 Group set out in the Accountants' Report of Ernst & Young, Certified Public Accountants, set out in Appendix III and prepared in accordance with paragraph 4.29(1) and 14.68(2) (a) (ii) of the Listing Rules.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	The Group	Pro forma adjustments						The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	*(Note g)*	*(Note h)*	*(Note i)*	
Non-current assets								
Property, plant and equipment	345,415	(6,186)	—	—	730	—	—	339,959
Prepaid lease payments	139,678	—	—	—	—	—	—	139,678
Investment property	16,217	—	—	—	—	—	—	16,217
Intangible assets	2,626	—	—	—	—	—	—	2,626
Interests in associates	11,793	(3,946)	—	—	—	—	—	7,847
Interest in a jointly controlled entity	18,015	(18,015)	—	—	—	—	—	—
Available-for-sale investments	5,000	—	—	—	—	—	—	5,000
Loan receivables	9,969	—	—	—	—	—	—	9,969
Goodwill	12,534	—	—	—	—	—	—	12,534
Deferred tax assets	1,586	(2,834)	—	—	—	—	1,248	—
	562,833	(30,981)	—	—	730	—	1,248	533,830
Current assets								
Prepaid lease payments	2,902	—	—	—	—	—	—	2,902
Loan receivables	3,143	—	—	—	—	—	—	3,143
Trade receivables	61,427	(42,833)	—	—	—	—	—	18,594
Other receivables, prepayments and deposits	72,101	(8,416)	6,415	—	—	—	—	70,100
Held for trading investments	4,939	—	—	—	—	—	—	4,939
Amounts due from related companies	3,637	—	—	—	—	—	—	3,637
Amount due from Remaining Group	—	(16)	16	—	—	—	—	—
Amount due from a jointly controlled entity	3,060	(3,060)	—	—	—	—	—	—
Pledged bank deposit	194,405	—	—	—	—	—	—	194,405
Bank deposits	394,081	(102,454)	—	—	—	—	—	291,627
Bank balances and cash	1,142,825	(233,818)	—	6,655,282	—	—	—	7,564,289
	1,882,520	(390,597)	6,431	6,655,282	—	—	—	8,153,636

	The Group	Pro forma adjustments						The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	*(Note g)*	*(Note h)*	*(Note i)*	
Current liabilities								
Trade and other payables	222,137	(108,844)	16	—	—	—	—	113,309
Deferred income	24,778	—	—	—	—	—	—	24,778
Amounts due to related companies	121	(121)	—	—	—	—	—	—
Amount due to an associate	5,600	—	—	—	—	—	—	5,600
Amounts due to Remaining Group	—	(6,415)	6,415	—	—	—	—	—
Secured bank loan	183,595	—	—	—	—	—	—	183,595
Other financial liability	10,679	—	—	—	—	—	—	10,679
Income tax payable	66,355	(23,582)	—	725,413	—	—	—	768,186
	513,265	(138,962)	6,431	725,413	—	—	—	1,106,147
Net current assets	1,369,255	(251,635)	—	5,929,869	—	—	—	7,047,489
Total assets less current liabilities	1,932,088	(282,616)	—	5,929,869	730	—	1,248	7,581,319
Non-current liabilities								
Redeemable convertible preferred shares	195,115	(214,800)	—	—	—	19,685	—	—
Conversion option derivative liability	314,829	(331,223)	—	—	—	16,394	—	—
Deferred tax liabilities	6,141	(5,840)	—	—	—	—	—	301
	516,085	(551,863)	—	—	—	36,079	—	301
Net assets	1,416,003	269,247	—	5,929,869	730	(36,079)	1,248	7,581,018
Capital and reserves								
Share capital	37,532	—	—	—	—	—	—	37,532
Share premium and reserves	1,356,317	—	—	6,520,987	730	(335,862)	1,248	7,543,420
Equity attributable to owners of the Company	1,393,849	—	—	6,520,987	730	(335,862)	1,248	7,580,952
Non-controlling interests	22,154	—	—	(321,871)	—	299,783	—	66
Total equity	1,416,003	—	—	6,199,116	730	(36,079)	1,248	7,581,018

PRO FORMA CONSOLIDATED STATEMENT COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	The Group	Pro forma adjustments			The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note e)*	*(Note f)*	*(Note j)*	
Continuing operations					
Revenue	1,108,349	(284,980)	231	—	823,600
Cost of revenue	(116,359)	61,951	(231)	—	(54,639)
Gross profit	991,990	(223,029)	—	—	768,961
Other income and gains	50,025	(1,219)	2,059	—	50,865
Selling and marketing expenses	(152,173)	37,969	—	—	(114,204)
Administrative expenses	(247,628)	47,606	(1,329)	—	(201,351)
Development costs	(204,173)	56,983	—	—	(147,190)
Other expenses	(27,214)	—	—	—	(27,214)
Share of losses of associates	(1,456)	912	—	—	(544)
Share of loss of a jointly controlled entity	(1,391)	1,391	—	—	—
Operating profit	407,980	(79,387)	730	—	329,323
Interest income on pledged bank deposit	4,849	—	—	—	4,849
Interest income on redeemable convertible preferred shares	—	—	2,512	—	2,512
Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares	11,909	(1,926)	—	—	9,983
Net (loss) gain on derivative financial instruments	(282,424)	286,453	—	—	4,029
Finance costs	(28,417)	26,653	(2,512)	—	(4,276)
Profit before taxation	113,897	231,793	730	—	346,420
Taxation	(74,936)	28,226	—	—	(46,710)
Profit for the year from continuing operations	38,961	260,019	730	—	299,710

	The Group	Pro forma adjustments			The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note e)*	*(Note f)*	*(Note j)*	
Discontinued operations					
Profit for the year from discontinued operations	—	—	—	5,768,331	5,768,331
Profit for the year	38,961	260,019	730	5,768,331	6,068,041
Other comprehensive expense:					
Exchange differences arising on translation of foreign operations	(64)	20	—	—	(44)
Reclassification of translation reserve upon disposal of 91 Group	—	—	—	13	13
Total comprehensive income for the year	38,897	260,039	730	5,768,344	6,068,010

PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	The Group	Pro forma adjustments				The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note k)*	*(Note l)*	*(Note j)*	*(Note m)*	
OPERATING ACTIVITIES						
Profit before taxation	113,897	231,793	—	—	—	345,690
Adjustments for:						
Share of losses of associates	1,456	(912)	—	—	—	544
Share of loss of a jointly controlled entity	1,391	(1,391)	—	—	—	—
Gain on fair value changes of investment property	(407)	—	—	—	—	(407)
Gain on deemed disposal of an associate	(80)	—	—	—	—	(80)
Net loss on derivative financial instruments	282,424	(286,453)	—	—	—	(4,029)
Finance costs	28,417	(26,653)	—	—	2,512	4,276
Foreign exchange differences	—	1,034	—	—	—	1,034
Interest income	(39,749)	763	—	—	(2,512)	(41,498)
Loss on partial disposal of a subsidiary	132	—	—	—	—	132
Net loss on held for trading investments	61	—	—	—	—	61
Release of prepaid lease payments	1,460	—	—	—	—	1,460
Amortisation of intangible assets	4,478	—	—	—	—	4,478
Write off of intangible assets	2,156	—	—	—	—	2,156
Depreciation of property, plant and equipment	26,292	(944)	—	—	—	25,348
Share-based payments expense	34,733	(12,860)	—	—	—	21,873
Loss on disposal of property, plant and equipment	76	—	—	—	—	76
Allowances on trade receivables	2,639	—	—	—	—	2,639
Operating cash flows before movements in working capital	459,376	(95,623)	—	—	—	363,753
Increase in trade receivables	(22,511)	37,237	—	—	—	14,726
Increase in other receivables, prepayments and deposits	(11,009)	680	—	—	—	(10,329)
Increase in held for trading investments	(5,000)	—	—	—	—	(5,000)
Increase in amounts due from related companies	(2,437)	3,060	—	—	—	623
Increase in trade and other payables	18,639	(80,824)	—	—	—	(62,185)
Decrease in deferred income	(750)	—	—	—	—	(750)
Decrease in amounts due to related companies	(844)	4,114	—	—	—	3,270
Cash generated from operations	435,464	(131,356)	—	—	—	304,108
Interest paid	(69)	—	—	—	—	(69)
Income tax paid	(46,821)	4,452	—	—	—	(42,369)
NET CASH FROM OPERATING ACTIVITIES	388,574	(126,904)	—	—	—	261,670

	The Group	Pro forma adjustments				The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note k)*	*(Note l)*	*(Note j)*	*(Note m)*	
INVESTING ACTIVITIES						
Interest received	35,374	—	—	—	—	35,374
Acquisition of a subsidiary	2,556	—	—	—	—	2,556
Acquisitions of associates	(500)	500	—	—	—	—
Investment in a jointly controlled entity	(19,406)	19,406	—	—	—	—
Acquisitions of available-for-sale investments	(1,000)	—	—	—	—	(1,000)
Advanced to 91 Group	—	—	(22,463)	—	—	(22,463)
Repayment of amount due from 91 Group	—	—	12,588	—	—	12,588
Increase in amounts due from Remaining Group	—	16	(16)	—	—	—
Subscription of new preferred shares issued by 91 Group	—	—	—	—	(18,144)	(18,144)
Dividend received from 91 Group	—	—	—	182,587	—	182,587
Proceed from disposal of 91 Group	—	—	—	6,472,695	—	6,472,695
Proceeds from disposal of property, plant and equipment	80	—	—	—	—	80
Placement of bank deposits	(404,081)	103,095	—	—	—	(300,986)
Placement of pledged bank deposit	(194,405)	—	—	—	—	(194,405)
Withdrawal of bank deposits	50,000	—	—	—	—	50,000
Advance of loan receivables	(9,682)	—	—	—	—	(9,682)
Repayment of loan receivables	3,970	—	—	—	—	3,970
Advanced to a jointly controlled entity	(3,060)	—	—	—	—	(3,060)
Purchase of prepaid lease payments	(36,908)	—	—	—	—	(36,908)
Purchase of property, plant and equipment	(137,358)	5,400	—	—	—	(131,958)
Purchase of intangible assets	(4,733)	—	—	—	—	(4,733)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(719,153)	128,417	(9,891)	6,655,282	(18,144)	6,036,511
FINANCING ACTIVITIES						
Finance from Remaining Group	—	(22,463)	22,463	—	—	—
Finance from 91 Group	—	—	16	—	—	16
Repayment of finance from related parties	—	12,588	(12,588)	—	—	—
Advanced from an associate	5,600	—	—	—	—	5,600
Contribution from non-controlling shareholders	671	—	—	—	—	671
Proceeds from issue of redeemable convertible preferred Shares	13,395	(31,539)	—	—	18,144	—
Proceeds from exercise of share options	1,339	—	—	—	—	1,339
Dividends paid	(112,989)	—	—	—	—	(112,989)
New bank loan raised	183,595	—	—	—	—	183,595
Payment for repurchase of shares	(45,773)	—	—	—	—	(45,773)
NET CASH FROM FINANCING ACTIVITIES	45,838	(41,414)	9,891	—	18,144	32,459

	The Group	Pro forma adjustments				The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note k)*	*(Note l)*	*(Note j)*	*(Note m)*	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(284,741)	(39,901)	—	6,655,282	—	6,330,640
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,428,928	(194,216)	—	—	—	1,234,712
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,362)	299	—	—	—	(1,063)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	1,142,825	(233,818)	—	6,655,282	—	7,564,289

NOTES TO THE PRO FORMA FINANCIAL INFORMATION

(a) Figures are extracted from the audited consolidated financial statements of the Group as set out in the Group's annual report for the year ended 31 December 2012.

(b) The adjustment related to the exclusion of assets and liabilities of 91 Group as at 31 December 2012, assuming the Disposal had been taken place on 31 December 2012. Figures are extracted from the Accountants' Report as set out in Appendix III of the Circular.

(c) The adjustment related to the reinstatement of the intercompany balances between the Remaining Group and 91 Group.

(d) The adjustments to reflect the estimated gain arising from the Disposal as presented below and the proceed from the Disposal which arrived based on the total cash consideration of US$1.09 billion (equivalent to RMB6,664 million) less estimated expenses (mainly legal and professional fee of approximately RMB8.3 million) and the related income tax payable for the Disposal.

	RMB'000
Cash consideration (US$1.09 billion) (Note 1)	6,663,572
Adjusted for the cash consideration of 91 Group arising from dividend declared to NetDragon BVI of 91 Group prior to the completion of the Disposal (Note 2)	(182,587)
Adjusted cash consideration	6,480,985
Estimated legal and professional fee	(8,290)
Net proceeds from Disposal	6,472,695
Net liabilities of 91 Group as at 31 December 2012 (Note 3)	269,247
Adjusted for the net asset value of 91 Group arising from dividend declared to shareholders of 91 Group prior to the completion of the Disposal (Note 4)	318,040
Adjusted for redeemable convertible preferred shares (Note 5)	(546,023)
Adjusted for the new shares issued by 91 Group to NetDragon BVI (Note 5)	(157,858)
Non-controlling interests derecognised (Note 6)	321,871
Adjusted for the non-controlling interests of 91 Group arising from dividend declared to non-controlling shareholders of 91 Group prior to the completion of the Disposal (Note 7)	(135,453)
Reclassification of translation reserve upon disposal of 91 Group	(7)
Gain from Disposal before tax	6,542,512
Estimated income tax expense (Note 8)	(725,413)
Gain from Disposal	5,817,099

Notes:

<1> For the purpose of determining the pro forma gain from Disposal, amount represents the cash consideration receivable by the Group prior to distribution of the special dividend of US$0.371 per share.

<2> The amount represents the adjustment of the cash consideration arising from the special dividend of US$0.371 per share declared by 91 Group to NetDragon BVI according to the S&P Agreement.

<3> Figure is extracted from the Accountants' Report as set out in Appendix III of the Circular.

<4> According to the S&P Agreement, special dividend of US$0.371 per share would be declared to the shareholders of 91 Wireless Websoft Limited. For the purpose of determining the pro forma gain from Disposal, the directors of the Company assumed that the dividend would be declared prior to 31 December 2012. Subsequent to the special dividend, the net asset value of 91 Group would be reduced by RMB318,040,000.

<5> Subsequent to the year ended 31 December 2012, the holders of preferred shares converted their preferred shares into ordinary shares of 91 Wireless Websoft Limited and 91 Wireless Websoft Limited has issued new shares to NetDragon BVI. Accordingly, the equity interests held by the Group has decreased from 88.10% to 57.41%. For the purpose of determining the pro forma gain from Disposal, the directors of the Company assumed that the redeemable convertible preferred shares have been converted to the ordinary shares of 91 Wireless Websoft Limited as at 31 December 2012 and the issuance of new shares had taken place on 31 December 2012. The amounts of adjustments were extracted from the Accountants' Report as set out in Appendix III of the Circular.

<6> The amount represents the derecognition of non-controlling interests of 91 Group at 31 December 2012. The amount of non-controlling interests has been adjusted to assume the conversion of preferred shares and new shares issued by 91 Group to NetDragon BVI as if they were completed on 31 December 2012. The net asset value of 91 Group attributable to the non-controlling interests has been increased as a result of the increase in equity interests in 91 Wireless Websoft Limited held by non-controlling interests shareholders and the increase in net assets after conversion of preferred share and issuance of new shares by 91 Wireless Websoft Limited.

<7> The amount represents the adjustments of the non-controlling interests arising from the special dividend of US$0.371 per share declared by 91 Group to non-controlling shareholders of 91 Group according to the S&P Agreement.

<8> The income tax expenses relating to the Disposal is calculated using the rates of 25% being the People's Republic of China (the "PRC") Enterprise Income Tax ("EIT") rate on the assumed capital gain derived from disposal of Fujian BoRui Websoft Technology Co, Ltd. ("Fujian Borui"), the domestic PRC subsidiary under the contracts arrangement, and of 10% being the PRC withholding income tax on the assumed capital gain derived from the disposal of the other subsidiaries of 91 Group effected through the indirect transfer of equity interests in these PRC entities through disposal of 91 Wireless Websoft Limited, which is a PRC non-residence enterprise. For the purpose of determining the pro forma gain from Disposal, the estimated tax on these capital gains was determined based on the difference between the consideration assigned to each of these PRC subsidiaries within 91 Group and the relevant cost of equity interests (representing the registered capital paid up of PRC subsidiaries within 91 Group). The cash consideration used for pro forma financial information are extracted from the relevant S&P Agreement. The applicable tax rate of disposal of Fujian Borui is 25% which is higher than the tax rate of the disposal of other PRC subsidiaries within 91 Group and these two transactions were connected with the same third party purchaser at the same time. The final allocation of consideration deemed by PRC tax authority may be different. Subject to the valuation of Fujian Borui and other PRC subsidiaries within 91 Group and local tax authority's final assessment, the actual capital gain tax will be different from the estimated figure used in the preparation of the pro forma financial information. The registered capital to the PRC subsidiaries is the same for both 1 January 2012 and 31 December 2012.

The amount of RMB6,520,987,000 adjusted to equity attributable to owners of the Company represents the aggregate of the (i) gain from Disposal of RMB5,817,099,000; (ii) reclassification of translation reserve upon disposal of 91 Group of RMB7,000; and (iii) the adjustment for the conversion of preferred shares into ordinary shares of 91 Wireless Websoft Limited of RMB546,023,000 and issuance of new shares to NetDragon BVI by 91 Wireless Websoft Limited of RMB157,858,000 as if they completed on 31 December 2012.

For the purposes of the presentation of the pro forma financial information, the total consideration is translated at the rate of US$1 to RMB6.10857.

(e) The adjustment related to the exclusion of the results of 91 Group for the year ended 31 December 2012, assuming the Disposal had taken place on 1 January 2012. Figures are extracted from the Accountants' Report as set out in Appendix III of the Circular.

(f) The adjustment related to the reinstatement of the intercompany transactions between the Remaining Group and 91 Group for the year ended 31 December 2012.

(g) The adjustment related to property, plant and equipment acquired by 91 Group from the subsidiary of NetDragon BVI during the year ended 31 December 2012 which has been eliminated on consolidation.

(h) For the purpose of determining the pro forma gain from Disposal, the directors of the Company assumed that the redeemable convertible preferred shares have been converted to the ordinary shares of 91 Wireless Websoft Limited as at 31 December 2012. The amounts of RMB19,685,000 and RMB16,394,000 represent the reinstatement of preferred shares issued by 91 Wireless Websoft Limited to NetDragon BVI. The amount of non-controlling interests was calculated on the assumption that the issuance of new shares by 91 Wireless Websoft Limited to NetDragon BVI of RMB157,858,000 has been completed on 31 December 2012 and preferred shares of 91 Wireless Websoft Limited has been converted into ordinary shares as at 31 December 2012. The net asset value of 91 Group attributable to the non-controlling interests has been increased as a result of the increase in equity interests in 91 Wireless Websoft Limited held by non-controlling interests shareholders and the increase in net assets after conversion of preferred share and issuance of new shares by 91 Wireless Websoft Limited.

(i) The adjustment related to subsequent adjustment of tax losses recorded by 91 Group. Subsequent to the issuance of Group's annual report for the year ended 31 December 2012, the PRC subsidiaries of 91 Group have confirmed with the local tax bureau for the applicable tax rate. The deferred tax effects of the tax losses have then been restated and recorded in the consolidated financial statements of 91 Group using this rate.

(j) The adjustments to reflect the estimated gain arising from the Disposal as presented below and the proceed from the Disposal which arrived based on the total cash consideration of US$1.09 billion (equivalent to RMB6,664 million) less estimated expenses (mainly legal and professional fee of approximately RMB8.3 million) and the related income tax payable for the Disposal.

	RMB'000
Cash consideration (US$1.09 billion) (Note 1)	6,663,572
Adjusted for the cash consideration of 91 Group arising from dividend declared to NetDragon BVI of 91 Group prior to the completion of the Disposal (Note 2)	(182,587)
Adjusted cash consideration	6,480,985
Estimated legal and professional fee	(8,290)
Net proceeds from Disposal	6,472,695
Net liabilities of 91 Group as at 1 January 2012 (Note 3)	32,796
Adjusted for the net asset value of 91 Group arising from dividend declared to shareholders of 91 Group prior to the completion of the Disposal (Note 4)	318,040
Adjusted for redeemable convertible preferred shares and conversion of promissory notes to redeemable convertible preferred shares (Note 5)	(235,322)
Adjusted for the new shares issued by 91 Group to NetDragon BVI (Note 5)	(157,858)
Adjusted for shares awarded by 91 Group to employees (Note 5)	22,024
Non-controlling interests derecognised (Note 6)	176,835
Adjusted for the non-controlling interests of 91 Group arising from dividend declared to non-controlling shareholders of 91 Group prior to the completion of the Disposal (Note 7)	(135,453)
Reclassification of translation reserve upon disposal of 91 Group	(13)
Gain from Disposal before tax	6,493,744
Estimated income tax expense (Note 8)	(725,413)
Gain from Disposal	5,768,331

Notes:

<1> For the purpose of determining the pro forma gain from Disposal, amount represents the cash consideration receivable by the Group prior to distribution of the special dividend of US$0.371 per share.

<2> The amount represents the adjustments of the cash consideration arising from the special dividend of US$0.371 per share declared by 91 Group to NetDragon BVI according to the S&P Agreement.

<3> Figure is extracted from the Accountants' Report as set out in Appendix III of the Circular.

<4> According to the S&P Agreement, special dividend of US$0.371 per share would be declared to the shareholders of the 91 Wireless Websoft Limited prior to the Disposal. For the purpose of determining the pro forma gain from Disposal, the directors of the Company assumed that the dividend would be declared as at 1 January 2012. Subsequent to the special dividend, the net asset value of 91 Group would be reduced by RMB318,040,000.

<5> Subsequent to 1 January 2012, the promissory notes has converted into preferred shares and new preferred shares were issued by 91 Wireless Websoft Limited. The holders of preferred shares then converted their preferred shares into ordinary shares of 91 Wireless Websoft Limited and 91 Wireless Websoft Limited has issued new shares to NetDragon BVI as well as awarded shares to the employees. Accordingly, the equity interests held by the Group has decreased from 100% to 57.41%. For the purpose of determining the pro forma gain from Disposal, the directors of the Company assumed that the redeemable convertible preferred shares have been converted to the ordinary shares of 91 Wireless Websoft Limited as at 1 January 2012 and the issuance of new shares had taken place on 1 January 2012.

<6> The amount represents the derecognition of non-controlling interests of 91 Group at 1 January 2012. The amount of non-controlling interests has been adjusted to assume the conversion of preferred shares, new shares issued by 91 Group to NetDragon BVI and awarded shares to employees as if they were completed on 1 January 2012.

<7> The amount represents the adjustments of the non-controlling interests of 91 Group arising from the special dividend of US$0.371 per share declared by 91 Group to non-controlling shareholders according to the S&P Agreement.

<8> The income tax expenses relating to the Disposal is calculated using the rates of 25% being the PRC EIT rate on the assumed capital gain derived from disposal of Fujian Borui, the domestic PRC subsidiary under the contracts arrangement, and of 10% being the PRC withholding income tax on the assumed capital gain derived from the disposal of the other subsidiaries of 91 Group effected through the indirect transfer of equity interests in these PRC entities through disposal of 91 Wireless Websoft Limited, which is a PRC non-residence enterprise. For the purpose of determining the pro forma gain from Disposal, the estimated tax on these capital gains was determined based on the difference between the consideration assigned to each of these PRC subsidiaries within 91 Group and the relevant cost of equity interests (representing the registered capital paid up of PRC subsidiaries within 91 Group). The cash consideration used for pro forma financial information are extracted from the relevant S&P Agreement. The applicable tax rate of disposal of Fujian Borui is 25% which is higher than the tax rate of the disposal of other PRC subsidiaries within 91 Group and these two transactions were connected with the same third party purchaser at the same time. The final allocation of consideration deemed by PRC tax authority may be different. Subject to the valuation of Fujian Borui and other PRC subsidiaries within 91 Group and local tax authority's final assessment, the actual capital gain tax will be different from the estimated figure used in the preparation of the pro forma financial information. The registered capital to the PRC subsidiaries is the same for both 1 January 2012 and 31 December 2012.

For the purposes of the presentation of the pro forma financial information, the total consideration is translated at the rate of US$1 to RMB6.10857.

(k) The adjustment related to the exclusion of the cash flows of 91 Group for the year ended 31 December 2012, assuming the Disposal had been taken place on 1 January 2012. Figures are extracted from the Accountants' Report as set out in Appendix III of the Circular.

(l) The adjustment related to the reinstatement of net cash advance to NetDragon BVI by 91 Group of approximately RMB16,000, cash advance from NetDragon BVI to 91 Group of approximately RMB22,463,000 and cash repaid from 91 Group to NetDragon BVI of RMB12,588,000 during the year ended 31 December 2012.

(m) The adjustment related to reinstatement of financial costs arising from preferred shares issued by 91 Wireless Websoft Limited to NetDragon BVI and the cash received by 91 Group from NetDragon BVI for subscription of new preferred shares issued by 91 Wireless Websoft Limited to NetDragon BVI during the year ended 31 December 2012.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

11 September 2013

The directors
91 Wireless Websoft Limited

Dear Sirs,

We set out below our report on the financial information of 91 Wireless Websoft Limited (formerly known as "91 Limited") (the "91 Wireless") and its subsidiaries (hereinafter collectively referred to as the "91 Wireless Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the 91 Wireless Group for each of the years ended 31 December 2011 and 2012, and the three-month period ended 31 March 2013 (the "Relevant Periods"), and the consolidated statements of financial position of the 91 Wireless Group and the statements of financial position of 91 Wireless as at 31 December 2011 and 2012 and 31 March 2013, together with the notes thereto (the "Financial Information"), and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the 91 Wireless Group for the three-month period ended 31 March 2012 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in a circular (the "Circular") issued by NetDragon Websoft Inc. (the "Company" or "NetDragon (Cayman)") dated 11 September 2013 in connection with the proposed disposal of 91 Wireless, a subsidiary of the Company.

91 Wireless was incorporated as an exempted company with limited liability in the Cayman Islands on 4 January 2011. Pursuant to a group reorganisation (the "Reorganisation") as set out in note 2.1 of Section II below, 91 Wireless became the holding company of the other subsidiaries now comprising the 91 Wireless Group. Apart from the Reorganisation, 91 Wireless has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements for the 91 Wireless Group and 91 Wireless have been prepared, as 91 Wireless has not been involved in any significant business transaction other than the Reorganisation described above.

As at the date of this report, 91 Wireless had direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the 91 Wireless Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the 91 Wireless Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated management accounts of the 91 Wireless Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2011 and 2012 and the three-month period ended 31 March 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the 91 Wireless Group and 91 Wireless as at 31 December 2011, 2012 and 31 March 2013, and of the consolidated results and cash flows of the 91 Wireless Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Consolidated statements of comprehensive income

		Year ended 31 December		Three-month period ended 31 March	
		2011	2012	2012	2013
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
REVENUE	5	48,733	284,980	34,960	145,542
Cost of revenue		(13,409)	(61,951)	(7,300)	(25,849)
Gross profit		35,324	223,029	27,660	119,693
Other income and gains	5	108	3,145	30	2,034
Selling and marketing expenses		(15,275)	(37,969)	(6,265)	(12,048)
Administrative expenses		(12,133)	(47,606)	(11,923)	(21,390)
Development costs		(22,080)	(56,983)	(10,451)	(19,815)
Operating profit/(loss)		(14,056)	83,616	(949)	68,474
Gain/(loss) on debt modification		(1,193)	—	—	292
Gain/(loss) on changes in fair value of conversion option derivative liabilities	6	(18,192)	(286,453)	(2,651)	36,427
Finance costs	7	(2,877)	(26,653)	(5,921)	(11,341)
Share of profits/(losses) of:					
A joint venture		—	(1,391)	—	1,013
Associates		(392)	(912)	(226)	(390)
PROFIT/(LOSS) BEFORE TAX	6	(36,710)	(231,793)	(9,747)	94,475
Income tax expense	10	—	(28,226)	—	(23,208)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(36,710)	(260,019)	(9,747)	71,267

		Year ended 31 December		Three-month period ended 31 March	
		2011	**2012**	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		13	(20)	—	(17)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		(36,697)	(260,039)	(9,747)	71,250
Profit/(loss) attributable to:					
Owners of the parent	13	(36,710)	(259,994)	(9,747)	71,268
Non-controlling interests		—	(25)	—	(1)
		(36,710)	(260,019)	(9,747)	71,267
Total comprehensive income/(loss) attributable to:					
Owners of the parent	13	(36,697)	(260,014)	(9,747)	71,251
Non-controlling interests		—	(25)	—	(1)
		(36,697)	(260,039)	(9,747)	71,250
EARNINGS /(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12	N/A	N/A	N/A	N/A

Consolidated statements of financial position

		31 December		31 March
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	14	1,000	6,186	5,725
Investments in a joint venture	16	—	18,015	19,028
Investments in associates	17	4,358	3,946	3,556
Deferred tax assets	24	—	2,834	3,932
Total non-current assets		5,358	30,981	32,241
CURRENT ASSETS				
Trade receivables	18	5,596	42,833	52,559
Prepayments, deposits and other receivables	19	7,983	8,416	16,642
Due from related parties	33(b)(i)	—	3,076	7,290
Time deposits with original maturity of more than three months	20	—	102,454	102,183
Cash and cash equivalents	21	194,216	233,818	606,150
Total current assets		207,795	390,597	784,824
CURRENT LIABILITIES				
Trade payables	22	811	11,193	11,704
Promissory notes	25	30,626	—	—
Deferred revenue		213	192	—
Other payables and accruals	23	26,996	97,459	148,350
Due to related parties	33(b)(ii)	15,338	6,536	7,073
Income tax payable		—	23,582	37,716
Total current liabilities		73,984	138,962	204,843
NET CURRENT ASSETS		133,811	251,635	579,981
TOTAL ASSETS LESS CURRENT LIABILITIES		139,169	282,616	612,222

		31 December		31 March
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Redeemable convertible preferred shares	26	131,666	214,800	—
Conversion option derivative liabilities	26	40,299	331,223	—
Deferred tax liabilities	24	—	5,840	11,001
Total non-current liabilities		171,965	551,863	11,001
Net assets/(liabilities)		(32,796)	(269,247)	601,221
EQUITY				
Equity attributable to owners of the parent				
Issued capital	27	47	49	86
Reserves	29	(32,843)	(269,271)	601,161
		(32,796)	(269,222)	601,247
Non-controlling interests		—	(25)	(26)
Total equity/(Net deficit)		(32,796)	(269,247)	601,221

Consolidated statements of change in equity

	Attributable to owners of the parent										
	Issued capital (note 27)	Share premium*	Other reserve*	Equity-settled share-based compensation reserve*	Merger reserve* (note 29)	Exchange fluctuation reserve*	Statutory surplus reserve* (note 29)	Accumulated losses*	Total	Non-controlling interests	Total equity/ (Net deficit)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	—	—	—	—	—	—	—	(21,904)	(21,904)	—	(21,904)
Exchange differences on transaction of foreign operations	—	—	—	—	—	13	—	—	13	—	13
Loss for the year	—	—	—	—	—	—	—	(36,710)	(36,710)	—	(36,710)
Total comprehensive loss for the year	—	—	—	—	—	13	—	(36,710)	(36,697)	—	(36,697)
Issue of shares	47	—	—	—	—	—	—	—	47	—	47
Acquisition of Talent Zone Holding Limited ("Talent Zone")	—	—	—	—	(121)	—	—	—	(121)	—	(121)
Repurchase of shares (note 27)	—	74	—	—	—	—	—	—	74	—	74
Deemed contribution from equity holders (note 30)	—	—	—	—	18,188	—	—	—	18,188	—	18,188
Deemed distribution to equity holders (note 30)	—	—	—	—	(5,000)	—	—	—	(5,000)	—	(5,000)
Equity-settled share-based compensation allocated from NetDragon Websoft Inc. ("NetDragon (Cayman)") (note 28)	—	—	—	408	—	—	—	—	408	—	408
Contribution from an equity holder upon establishing a special purpose entity	—	—	—	—	10,000	—	—	—	10,000	—	10,000
Deemed contribution from equity holders (note 25)	—	—	2,209	—	—	—	—	—	2,209	—	2,209
At 31 December 2011 and 1 January 2012	47	74	2,209	408	23,067	13	—	(58,614)	(32,796)	—	(32,796)
Exchange differences on transaction of foreign operations	—	—	—	—	—	(20)	—	—	(20)	—	(20)
Loss for the year	—	—	—	—	—	—	—	(259,994)	(259,994)	(25)	(260,019)
Total comprehensive loss for the year	—	—	—	—	—	(20)		(259,994)	(260,014)	(25)	(260,039)
Deemed contribution from an equity holder	—	—	11,469	—	—	—	—	—	11,469	—	11,469
Equity-settled share-based compensation allocated from NetDragon (Cayman) (note 28)	—	—	—	416	—	—	—	—	416	—	416
Equity-settled share award expense (note 28)	—	—	—	22,031	—	—	—	(9,587)	12,444	—	12,444
Exercise of share awards scheme (note 28)	2	19,969	—	(19,971)	—	—	—	—	—	—	—
Transfer from retained profits	—	—	—	—	—	—	8,068	(8,068)	—	—	—
Issuance of preferred shares to Sino Coast (note 26)	—	—	—	—	—	—	—	(741)	(741)	—	(741)
At 31 December 2012 and 1 January 2013	49	20,043	13,678	2,884	23,067	(7)	8,068	(337,004)	(269,222)	(25)	(269,247)

	Attributable to owners of the parent										
	Issued capital (note 27)	Share premium*	Other reserve*	Equity-settled share-based compensation reserve*	Merger reserve* (note 29)	Exchange fluctuation reserve*	Statutory surplus reserve* (note 29)	Accumulated losses*	Total	Non-controlling interests	Total equity/ (Net deficit)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2012 and 1 January 2013	49	20,043	13,678	2,884	23,067	(7)	8,068	(337,004)	(269,222)	(25)	(269,247)
Exchange differences on transaction of foreign operations	—	—	—	—	—	(17)	—	—	(17)	—	(17)
Profit/(loss) for the period	—	—	—	—	—	—	—	71,268	71,268	(1)	71,267
Total comprehensive income/(loss) for the period	—	—	—	—	—	(17)	—	71,268	71,251	(1)	71,250
Transfer of 91 Smartphone Games	—	—	—	—	2,972**	—	—	—	2,972	—	2,972
Equity-settled share-based compensation allocated from NetDragon (Cayman) (note 28)	—	—	—	82	—	—	—	—	82	—	82
Equity-settled share award expense (note 28)	—	—	—	14,692	—	—	—	(5,720)	8,972	—	8,972
Exercise of share awards scheme (note 28)	—	5,006	—	(5,006)	—	—	—	—	—	—	—
Conversion of preferred shares (note 27)	29	629,305	—	—	—	—	—	—	629,334	—	629,334
Issuance of ordinary shares (note 27)	8	157,850	—	—	—	—	—	—	157,858	—	157,858
At 31 March 2013	86	812,204	13,678	12,652	26,039	(24)	8,068	(271,456)	601,247	(26)	601,221
(Unaudited)											
At 31 December 2011 and 1 January 2012	47	74	2,209	408	23,067	13	—	(58,614)	(32,796)	—	(32,796)
Loss for the period	—	—	—	—	—	—	—	(9,747)	(9,747)	—	(9,747)
Total comprehensive loss for the period	—	—	—	—	—	—	—	(9,747)	(9,747)	—	(9,747)
Equity-settled share-based compensation allocated from NetDragon (Cayman) (note 28)	—	—	—	156	—	—	—	—	156	—	156
Equity-settled share award expense (note 28)	—	—	—	3,999	—	—	—	—	3,999	—	3,999
Exercise of share awards scheme (note 28)	—	2,395	—	(2,395)	—	—	—	—	—	—	—
At 31 March 2012	47	2,469	2,209	2,168	23,067	13	—	(68,361)	(38,388)	—	(38,388)

* These reserve accounts comprise the combined reserves of RMB(32,843,000), RMB(269,271,000) and RMB601,161,000 in the consolidated statements of financial position as at 31 December 2011 and 2012 and 31 March 2013, respectively.

** On 1 February 2013, 91 Wireless and NetDragon (Cayman) entered into a framework agreement. Under the agreement, 91 Wireless sold the copyrights of its 91 Smartphone Games to NetDragon (Cayman) at a consideration of RMB4,200,000. The after tax gain of this transfer is credited into merger reserve as a contribution from NetDragon (Cayman).

Consolidated statements of cash flows

		Year ended 31 December		Three-month period ended 31 March	
		2011	**2012**	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax		(36,710)	(231,793)	(9,747)	94,475
Adjustments for:					
Finance costs	7	2,877	26,653	5,921	11,341
Share of losses/(profits) of a joint venture	16	—	1,391	—	(1,013)
Share of losses of associates	17	392	912	226	390
Foreign exchange differences		795	(1,034)	(22)	(79)
Interest income on time deposits		—	(763)	—	(378)
Loss/(gain) on changes in fair value of conversion option derivative liabilities		18,192	286,453	2,651	(36,427)
Loss/(gain) on debt modification		1,193	—	—	(292)
Equity-settled share-based expense		408	12,860	4,155	9,054
Loss on disposal of of items of property, plant and equipment		—	—	—	8
Depreciation	14	572	944	95	557
		(12,281)	95,623	3,279	77,636
Increase in trade receivables		(4,750)	(37,237)	(3,741)	(9,726)
Increase in prepayments, deposits and other receivables		(6,959)	(680)	(3,518)	(7,848)
(Increase)/decrease in amounts due from related parties		—	(3,060)	138	(30)
Increase in trade payables		1,218	10,382	1,846	511
Increase in other payables and accruals		23,480	70,442	1,938	50,461
Increase/(decrease) in amounts due to related parties		4,234	(4,114)	(1,982)	131
Cash generated from/(used in) operations		4,942	131,356	(2,040)	111,135
Income tax paid		(1,010)	(4,452)	—	(6,001)
Net cash flows from/(used in) operating activities		3,932	126,904	(2,040)	105,134

		Year ended 31 December		Three-month period ended 31 March	
		2011	2012	2012	2013
	Notes	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment		(807)	(5,400)	(445)	(834)
Increase in interests in a joint venture		—	(19,406)	—	—
Increase in interests in associates		(4,750)	(500)	—	—
(Increase)/decrease in amounts due from related parties		(8,978)	(16)	—	16
Increase in time deposits with original maturity of more than three months		—	(103,095)	—	—
Net cash flows used in investing activities		(14,535)	(128,417)	(445)	(818)
CASH FLOWS FROM FINANCING ACTIVITIES					
Finance from related parties		20,029	7,170	2,670	1,893
Repayment of finance from related parties		(5,005)	(12,588)	(5,476)	(757)
Loans from a related party		5,000	—	—	—
Repayment of loans from a related party		(5,000)	—	—	—
Interest paid		(108)	—	—	—
Proceeds from issue of redeemable convertible preferred shares		152,223	31,539	18,885	109,888
Proceeds from issue of promissory notes		31,774	—	—	—
Capital contribution in a special purpose entity of the 91 Wireless Group		10,000	—	—	—
Deemed contribution from an equity holder		—	15,293	—	—
Proceeds from issue of ordinary shares		—	—	—	157,858
Deemed distribution to equity holders		(5,000)	—	—	—
Net cash flows from financing activities		203,913	41,414	16,079	268,882
NET INCREASE IN CASH AND CASH EQUIVALENTS		193,310	39,901	13,594	373,198
Cash and cash equivalents at the beginning of year/period		3,039	194,216	194,216	233,818
Effect of foreign exchange rate changes, net		(2,133)	(299)	(195)	(866)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD		194,216	233,818	207,615	606,150

Details of major non-cash transactions are included in note 37.

Statements of financial position

		31 December		31 March
		2011	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Investments in subsidiaries	15	121	6,962	13,237
Due from subsidiaries	15	30,942	85,112	83,633
Total non-current assets		31,063	92,074	96,870
CURRENT ASSETS				
Deposits and other receivables	19	—	779	1,150
Due from a related party	33(b)(i)	—	16	—
Time deposits with original maturity of more than three months	20	—	102,454	102,183
Cash and cash equivalents	21	152,175	13,655	276,455
Total current assets		152,175	116,904	379,788
CURRENT LIABILITIES				
Promissory notes	25	30,626	—	—
Other payables and accruals	23	616	3,487	4,874
Due to a subsidiary	15	—	1,752	2,268
Due to related parties	33(b)(ii)	1,887	2,534	2,528
Total current liabilities		33,129	7,773	9,670
NET CURRENT ASSETS		119,046	109,131	370,118
TOTAL ASSETS LESS CURRENT LIABILITIES		150,109	201,205	466,988
NON-CURRENT LIABILITIES				
Redeemable convertible preferred shares	26	131,666	214,800	—
Conversion option derivative liabilities	26	40,299	331,223	—
Total non-current liabilities		171,965	546,023	—
Net assets/(liabilities)		(21,856)	(344,818)	466,988
EQUITY				
Issued capital	27	47	49	86
Reserves	29	(21,903)	(344,867)	466,902
Total equity/(Net deficit)		(21,856)	(344,818)	466,988

II. NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION

91 Wireless Websoft Limited (formerly known as "91 Limited") (the "91 Wireless") was incorporated on 4 January 2011 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of 91 Wireless is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

91 Wireless is an investment holding company. During the Relevant Periods, 91 Wireless's subsidiaries are engaged in mobile Internet business, including (i) mobile advertising and promotional services; (ii) mobile value-added services; and (iii) operation of self-developed games.

In the opinion of the directors of 91 Wireless (the "Directors"), the ultimate holding company of 91 Wireless is NetDragon (Cayman), which is incorporated in the Cayman Islands and listed on the Hong Kong Stock Exchange.

As at the date of this report, 91 Wireless had direct and indirect interests in its subsidiaries and a special purpose entity ("SPE"), all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to 91 Wireless		Nominal value of issued/registered share capital	Principal activities
		Direct	Indirect		
Subsidiaries					
Talent Zone (note(a))	Hong Kong 19 February 2010	100%	—	HK$1	Investment holding
Prestige Plus Holdings Limited ("Prestige Plus") (note(b))	British Virgin Islands ("BVI") 20 September 2011	100%	—	US$1	Investment holding
Alpha Great International Limited ("Alpha Great") (note(b))	BVI 25 October 2011	100%	—	US$1	Investment holding
Fuzhou BoYuan Wireless Websoft Technology Ltd. ("Fuzhou BoYuan") (note(c))	The People's Republic of China ("PRC") 6 September 2010	—	100%	RMB55,000,000	Development and research on mobile application technology
Keen City Holdings Limited ("Keen City") (note(d))	Hong Kong 15 September 2011	—	100%	HK$1	Investment holding

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to 91 Wireless		Nominal value of issued/registered share capital	Principal activities
		Direct	Indirect		
BoYuan (Hong Kong) Wireless Websoft Technology Ltd. ("BoYuan Hong Kong") (note(e))	Hong Kong 18 November 2011	—	100%	HK$1	Distribution of mobile games and applications
Fujian BoDong Cultural and Communications Co., Ltd. ("Fujian BoDong") (note(f))	PRC 27 December 2011	—	100%	RMB10,000,000	Design and produce production of advertising contents
Jiangsu BoWang Websoft Technology Ltd. ("Jiangsu BoWang") (note(g))	PRC 25 June 2012	—	100%	US$10,000,000	Websoft information technology and game research, development and related advisory services
I-WaveWireless Limited. ("I-Wave") (note(h))	Hong Kong 29 June 2012	—	51%	US$1,000,000	Distribution of mobile games and applications
Special purpose entity					
Fujian BoRui Websoft Technology Co,. Ltd. ("Fujian BoRui") (note(i))#	PRC 18 March 2011			RMB10,000,000	Distribution of mobile games and applications

interest existed by virtue of certain contractual arrangements as described in the following paragraphs.

Notes:

(a) The statutory audited financial statements of Talent Zone for the year ended 31 December 2011 prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance were audited by Deloitte Touche Tohmatsu, Certified Public Accountants registered in the Hong Kong. The statutory audited financial statements of Talent Zone for the year ended 31 December 2012 prepared in accordance with HKFRSs were audited by Ernst & Young, Certified Public Accountants registered in the Hong Kong.

(b) No statutory audited financial statements have been prepared since its date of incorporation/registration.

(c) The statutory financial statements of Fuzhou BoYuan for the years ended 31 December 2011 and 2012 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by 福建華興會計師事務所有限公司 and 福建華鐵會計師事務所有限責任公司.

(d) The statutory audited financial statements of Keen City for the period from 15 September 2011 (date of incorporation) to 31 December 2012 prepared in accordance with HKFRSs were audited by Ernst & Young, Certified Public Accountants registered in the Hong Kong.

(e) The statutory audited financial statements of BoYuan Hong Kong for the period from 18 November 2011 (date of incorporation) to 31 December 2012 prepared in accordance with HKFRSs were audited by Ernst & Young, Certified Public Accountants registered in the Hong Kong.

(f) The statutory financial statements of Fuzhou BoDong for the year ended 31 December 2012 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by 福建華鐵會計師事務所有限責任公司.

(g) The statutory financial statements of Jiangsu BoWang for the year ended 31 December 2012 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by 上海曉天誠會計師事務所有限公司.

(h) The statutory audited financial statements of I-Wave for the period from 29 June 2012 (date of incorporation) to 31 December 2012 prepared in accordance with HKFRSs were audited by Ernst & Young, Certified Public Accountants registered in the Hong Kong.

(i) The statutory financial statements of Fujian BoRui for the years ended 31 December 2011 and 2012 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by 福建華興會計師事務所有限公司 and 福建華鐵會計師事務所有限責任公司.

The formation of the 91 Wireless Group is attributable to the following major events which are part of the reorganisation (the "Reorganisation"):

(i) On 27 January 2011, NetDragon Websoft Inc. ("NetDragon (BVI)") and 91 Wireless entered into an acquisition agreement, pursuant to which the entire interest in Talent Zone was transferred from NetDragon (BVI) to 91 Wireless. In consideration of the said transfer, 91 Wireless allotted and issued 18,399,999 shares with a par value of US$0.001 each, credited as fully paid, to NetDragon (BVI). Fuzhou BoYuan was a fully-owned subsidiary of Talent Zone since incorporation.

(ii) Prestige Plus, Alpha Great, Keen City, BoYuan (Hong Kong), Fujian BoDong, Jiangsu BoWang, I-Wave were directly or indirectly incorporated/registered by 91 Wireless on respective dates stated in the above table.

(iii) On 30 May 2011, Fuzhou BoYuan entered into certain agreements with Fujian BoRui and the equity holders of Fujian BoRui (the "Structured Contracts") which took effect on 30 May 2011.

To comply with PRC laws and regulations that restrict foreign ownership of company that operates mobile internet business, the 91 Wireless Group operates its mobile internet business in the PRC through Fujian BoRui, a domestic company with limited liability under PRC Law, whose equity interests are held by Fujian NetDragon Websoft Co. Ltd. ("NetDragon (Fujian)"), a subsidiary of the ultimate holding company of 91 Wireless. Fujian BoRui has entered into certain business cooperation and technical service agreements with the 91 Wireless Group on 30 May 2011, which make it obligatory for the 91 Wireless Group to absorb a substantial majority of the risk of losses from the activities of Fujian BoRui and entitle the 91 Wireless Group to receive a substantial majority of its residual returns. In addition, the 91 Wireless Group has entered into (1) certain agreements with NetDragon (Fujian) to authorize individuals designated by the 91

Wireless Group to exercise the equity owners' rights over Fujian BoRui and; (2) option agreements for the 91 Wireless Group to acquire the equity in Fujian BoRui subject to compliance with PRC laws and (3) pledge agreements over the equity interests of Fujian BoRui held by NetDragon (Fujian). Based on these contractual agreements, the 91 Wireless Group believes that, notwithstanding the lack of equity ownership, the contractual arrangements described above give the 91 Wireless Group control over Fujian BoRui in substance. Accordingly, the directors of 91 Wireless regard Fujian BoRui as a subsidiary of the 91 Wireless Group as defined under HKAS 27.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, 91 Wireless became the holding company of the companies now comprising the 91 Wireless Group by acquiring the entire issued share capital of Talent Zone, Fuzhou BoYuan and entering into Structured Contracts with Fujian BoRui. The companies now comprising the 91 Wireless Group were under the common control of the controlling shareholder both before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

As part of the Reorganisation, on 13 August 2011, the 91 Wireless Group acquired the mobile operation business ("Acquired Businesses") from three subsidiaries, namely NetDragon (Fujian), Fujian TQ Digital Inc. ("TQ Digital") and Fujian TQ Online Interactive Inc. ("TQ Online") of NetDragon (Cayman). Under the terms of the agreements, the 91 Wireless Group acquired the intellectual properties, rights to use registered domain name, trademarks and fixed assets except servers related to the Acquired Businesses (the "Net Assets Acquired"). Trade receivables, trade payables, other payables and accruals, amounts due from a related party, amounts due to related parties and servers related to the Acquired Business (the "Net Liabilities Retained") have been retained by NetDragon (Fujian), TQ Digital and TQ Online. The Financial Information combined the Net Assets Acquired, the Net Liabilities Retained and the results of operations relating to the Acquired Businesses using merger accounting because the Acquired Businesses are under the common control and the management of NetDragon (Cayman) before and after the Reorganisation. At the acquisition date, the Net Liabilities Retained have been reflected as a contribution from equity holders in the consolidated statement of changes in equity (note 30).

The consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the 91 Wireless Group for the Relevant Periods include the results and cash flows of all companies now comprising the 91 Wireless Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholder, where this is a shorter period. The consolidated statements of financial position of the 91 Wireless Group as at 31 December 2011 and 2012 and 31 March 2013 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholders' perspective. No adjustments are made to reflect fair values, and no new assets or liabilities recognised as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2010, together with the relevant transitional provisions, have been early adopted by the 91 Wireless Group in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information.

The Financial Information has been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3.1 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The 91 Wireless Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[1]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]

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

2 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the 91 Wireless Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The 91 Wireless Group expects to adopt HKFRS 9 from 1 January 2015. The 91 Wireless Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the 91 Wireless Group upon adoption on 1 January 2014.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information incorporates the financial statements of 91 Wireless and its subsidiaries for the Relevant Periods.

As explained in note 2.1 above, acquisitions under common control has been accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All significant intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the 91 Wireless Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The 91 Wireless Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Subsidiaries

A subsidiary is an entity over which the 91 Wireless Group has power such that the 91 Wireless Group is able to direct the subsidiary's relevant activities, has exposure or rights to variable returns from its involvement with the subsidiary and has the ability to use its power over the subsidiary to affect the amount of the returns.

When 91 Wireless has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The 91 Wireless Group considers all relevant facts and circumstances in assessing whether or not the 91 Wireless Group's voting rights in an investee are sufficient to give it power, including:

- the size of the 91 Wireless Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the 91 Wireless Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the 91 Wireless Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The 91 Wireless Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control listed above.

The results of subsidiaries are included in 91 Wireless's profit or loss to the extent of dividends received and receivable. The investments in subsidiaries are stated at cost less any accumulated impairment losses.

Joint arrangements

Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual arrangements between the parties to the arrangement.

Joint venture

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 arrangement.

The 91 Wireless Group's investments in joint ventures are stated in the consolidated statement of financial position at the 91 Wireless Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The 91 Wireless Group's share of the post acquisition results and reserves of joint ventures is included in the profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the 91 Wireless Group and its joint ventures are eliminated to the extent of the 91 Wireless Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the 91 Wireless Group's investments in joint ventures and is not individually tested for impairment.

The results of joint ventures are included in profit or loss to the extent of dividend received and receivable. The investments in joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Associates

The existence of significant influence is assessed by the 91 Wireless Group based on the 91 Wireless Group's ownership percentage (considering its direct ownership as well as potentially exercisable or convertible shares) and other contractual rights. An associate is an entity, not being a subsidiary or a joint arrangement subject to joint control, in which the 91 Wireless Group has an equity voting interest of generally not less than 20% and over which the 91 Wireless Group is in a position to exercise significant influence. The 91 Wireless Group's investments in associates are stated in the consolidated statement of financial position at the 91 Wireless Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The 91 Wireless Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the 91 Wireless Group and its associates are eliminated to the extent of the 91 Wireless Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the 91 Wireless Group's investments in associates and is not individually tested for impairment.

The results of associates are included in profit or loss to the extent of dividends received and receivable. The investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the 91 Wireless Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the 91 Wireless Group;

(ii) has significant influence over the 91 Wireless Group; or

(iii) is a member of the key management personnel of the 91 Wireless Group or of a parent of the 91 Wireless Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the 91 Wireless Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the 91 Wireless Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the 91 Wireless Group or an entity related to the 91 Wireless Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the 91 Wireless Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rate used for this purpose is as follows:

Computer and office equipment	31.67%
Motor vehicles	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the 91 Wireless Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the 91 Wireless Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the 91 Wireless Group is the lessor, assets leased by the 91 Wireless Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the 91 Wireless Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables. The 91 Wireless Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the 91 Wireless Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The 91 Wireless Group's financial assets include cash and bank balances, time deposits, trade and other receivables, amount due from related parties.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The 91 Wireless Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the 91 Wireless Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the 91 Wireless Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in the consolidated statements of comprehensive income. The loss arising from impairment is recognised in the consolidated statements of comprehensive income in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the 91 Wireless Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the 91 Wireless Group has transferred substantially all the risks and rewards of the asset, or (b) the 91 Wireless Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the 91 Wireless Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the 91 Wireless Group's continuing involvement in the asset. In that case, the 91 Wireless Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the 91 Wireless Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the 91 Wireless Group could be required to repay.

Impairment of financial assets

The 91 Wireless Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the 91 Wireless Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the 91 Wireless Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the 91 Wireless Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the 91 Wireless Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the consolidated statements of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The 91 Wireless Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The 91 Wireless Group's financial liabilities include trade payables, other payables and accruals, amounts due to related parties, promissory notes, redeemable convertible preferred shares, and conversion option derivative liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in consolidated statements of comprehensive income.

Redeemable convertible preferred shares

Redeemable convertible preferred shares are compound financial instruments and are classified separately into respective items on initial recognition, which contain liability component, conversion option derivatives and equity component. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of 91 Wireless's own equity instruments is a conversion option derivative. At the date of issuance, both the liability component and conversion option derivatives are recognised at fair value. The excess of the proceeds over the total fair value of the liability component and conversion option derivatives, if any, is included in equity component. The redeemable convertible preferred shares issued by 91 Wireless do not have equity component after allocating the proceeds to the fair value of the liability component and conversion option derivatives.

In subsequent periods, the liability component of the redeemable convertible preferred shares is carried at amortised cost using the effective interest rate method. The conversion option derivatives are measured at fair value with changes in fair value recognised in profit or loss. Transaction costs that relate to the issue of the redeemable convertible preferred shares are allocated to the liability and conversion option components in proportion to their relative fair values.

Transaction costs relating to the conversion option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the redeemable convertible preferred shares using the effective interest method.

Upon the exercise of the conversion options, the resulting ordinary shares issued are recorded by 91 Wireless as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amount of the liability component and the conversion option derivatives of the redeemable convertible preferred shares over the nominal value of the ordinary shares issued is recorded in the share premium account. When the redeemable convertible preferred shares are redeemed, any difference between the amount paid and the carrying amount of the liability component and the conversion option derivatives is recognised in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the conversion option derivative of the redeemable convertible preferred shares will be transferred to profit or loss.

Promissory notes

Promissory notes issued by the 91 Wireless Group that contain both liability and conversion option components are classified separately into respective items on initial recognition.

Conversion option component of the promissory notes will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of 91 Wireless's own equity. At the date of issue, both the liability and conversion option components are recognised at fair value.

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the 91 Wireless Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the 91 Wireless Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the 91 Wireless Group and when the revenue can be measured reliably, on the following bases:

Mobile advertising and promotional services

Mobile advertising and promotional services revenue is derived from provision of advertising space on the 91 Wireless 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 91 Wireless Group allocates the total consideration to the various advertising elements based on their relative fair value and recognizes 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 value-added services

The 91 Wireless Group provides promotion and distribution services for i) smartphone games developed by third parties and ii) other resources on its mobile platforms and websites. End users can purchase the virtual currency provided by the 91 Wireless 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.

- *Smartphone games developed by third parties*

  For smartphone games developed by third parties, the 91 Wireless Group provides promotion and distribution services via its mobile platforms and websites. The 91 Wireless 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 91 Wireless Group then remits certain agreed-upon percentages of the proceeds to the game developers and records revenue net of the remittances. The remaining balances of 91 Bean and unsettled payables to the game developers are recorded in other payables. The 91 Wireless 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.

- *Other resources*

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

Operation of self-developed games ("91 Smartphone Games")

For 91 Smartphone Games, the 91 Wireless Group sells virtual items in games. Gross revenue is recognised upon consumption period of virtual items in games, which is usually in a few days. The in-game currencies not consumed are recognised as deferred revenue.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Equity-settled share-based payments

Share award scheme

91 Wireless operates a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the 91 Wireless Group's operations. Employees of the 91 Wireless Group receive remuneration in the form of equity-settled share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value is determined by referring to the report of an independent appraisal firm, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the 91 Wireless Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the equity-settled share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the 91 Wireless

Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

The employees of the 91 Wireless Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is 91 Wireless's functional and presentation currency. Each entity in the 91 Wireless Group determines its own functional currency and items included in these financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the 91 Wireless Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of certain entities in the 91 Wireless Group is a currency other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the 91 Wireless Group at the exchange rates prevailing at the end of the reporting period, and their income statements are translated into RMB at the weighted average exchange rates for the Relevant Periods.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flow, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the 91 Wireless Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

Accounting for mobile value-added services revenue

Revenue recognition involves certain management judgements, such as determination of who are the principles in provisions of mobile value-added services:

- *Smartphone games developed by third parties*

  We 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. Therefore, we report third party game revenue on a net basis.

- *Other resources developed and owned by content providers*

  We concluded that the content providers are the principals based on the fact that the content providers retain copyright of the resources and take responsibilities including copyright dispute, legal risk as well as price determination, while the 91 Wireless 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, we report revenue from distributing other resources developed and owned by content providers on a net basis.

Consolidation of special purpose entity

Through Structured Contracts, the 91 Wireless Group is able to govern the financial and operating policies of Fujian BoRui and to obtain substantially all economic benefits from the activities conducted by Fujian BoRui. Accordingly, the financial position and operating results of Fujian BoRui are included in the 91 Wireless Group's consolidated financial statements as if Fujian BoRui was the 91 Wireless Group's subsidiary.

Accounting for companies governed under contractual arrangements as subsidiaries

91 Wireless and its subsidiaries do not hold any equity interests in Fujian BoRui. Nevertheless, under the contractual agreements entered into among the 91 Wireless Group, Fujian BoRui and NetDragon (Fujian) who is the registered owners of Fujian BoRui, the management determines that the 91 Wireless Group has the power to govern the financial and operating policies of Fujian BoRui so as to obtain benefits from its activities. As such, Fujian BoRui is accounted for as a subsidiary of the 91 Wireless Group for accounting purposes.

The 91 Wireless Group's revenue generated from Fujian BoRui which is controlled by the 91 Wireless Group through Structured Contracts described above amounted to approximately RMB34,673,000, RMB190,651,000 and RMB93,991,000 for the years ended 31 December 2011 and 2012 and the three-month period ended 31 March 2013, respectively. At 31 December 2011 and 2012 and 31 March 2013, total assets of this entity amounted to approximately RMB35,955,000, RMB98,821,000 and RMB171,895,000, respectively. At 31 December 2011 and 2012 and 31 March 2013, total liabilities of this entity amounted to approximately RMB39,003,000, RMB89,509,000 and RMB147,915,000, respectively.

Estimation uncertainty

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

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on ongoing assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

Income tax

The 91 Wireless Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income tax. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 10 to the Financial Information.

4 OPERATING SEGMENT INFORMATION

For management purpose, the 91 Wireless Group did not organise into business units based on their services and only has one reportable operating segment. Management monitors the operating results of its operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

No further information is presented as substantially all of the 91 Wireless Group's revenue is derived from customers based in Mainland China, and all the 91 Wireless Group's non-current assets are located in the Mainland China.

Information about a major customer

During the Relevant Periods and the three-month period ended 31 March 2012, revenues of approximately RMB8,276,500 for the year ended 31 December 2011 were derived from sales to a single customer. Except the aforesaid revenues, no revenue from transactions with a single external customer amounted to 10% or more of the 91 Wireless Group's total revenue.

5 REVENUE, OTHER INCOME AND GAINS

	Year ended 31 December		Three-month period ended 31 March	
	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Revenue				
Mobile advertising and promotional services	33,304	155,868	20,450	69,799
Mobile value-added services − Smartphone games developed by third parties	7,307	85,425	8,237	64,178
Mobile value-added services − Other resources	3,312	7,362	2,130	5,244
Operation of 91 Smartphone Games	4,014	32,327	4,143	3,870
Others	796	3,998	—	2,451
	48,733	284,980	34,960	145,542
Other income				
Interest income	41	1,098	30	102
Government subsidies	—	—	—	1,200
Exchange gains	62	2,028	—	192
Others	5	19	—	540
	108	3,145	30	2,034

6 PROFIT/(LOSS) BEFORE TAX

The 91 Wireless Group's profit/(loss) before tax is arrived at after charging/(crediting):

		Year ended 31 December		Three-month period ended 31 March	
		2011	**2012**	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of service rendered		13,409	61,951	7,300	25,849
Depreciation	14	572	944	95	557
Foreign exchange differences, net		(62)	(2,028)	261	192
Loss/(gain) on changes in fair value of conversion option derivative liabilities		18,192	286,453	2,651	(36,427)
Loss on disposal of items of property, plant and equipment		—	—	—	8
Minimum lease payments under operating leases		7,455	29,022	5,928	12,774
Auditors' remuneration		521	3,600	—	1,509
Employee benefit expense (including directors' remuneration (note 8):					
Wages and salaries		21,995	56,943	8,931	16,048
Equity-settled share-based compensation		408	12,860	4,155	9,053
Pension scheme contributions		2,436	7,807	1,263	3,125
Staff welfare expense		3,893	12,078	2,043	7,255
		28,732	89,688	16,392	35,481

7 FINANCE COSTS

	Year ended 31 December		Three-month period ended 31 March	
	2011	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Interest on redeemable convertible preferred shares	1,450	26,174	5,442	11,341
Interest on promissory notes	1,319	479	479	—
Interest on a related party loan	108	—	—	—
	2,877	26,653	5,921	11,341

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December		Three-month period ended 31 March	
	2011	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Fees		—	—	—
Other emoluments:				
Salaries, allowances and benefits in kind	710	831	251	588
Equity-settled share-based compensation	—	4,697	—	2,153
Pension scheme contributions	10	13	2	4
	720	5,541	253	2,745
	720	5,541	253	2,745

During the Relevant Periods and the three-month period ended 31 March 2012, share awards were awarded to directors in respect of their services to the 91 Wireless Group, further details of which are included in the disclosures in note 28 to the Financial Information. The fair value of these shares, which has been recognised in profit or loss over the vesting period, was determined at the date of award and the amount included in the financial statements for the reporting periods is included in the above directors' remuneration disclosure.

(a) Independent non-executive directors

The 91 Wireless Group did not have any independent non-executive directors at any time during the Relevant Periods and the three-month period ended 31 March 2012.

(b) Executive directors

	Fees	**Salaries allowances and benefits in kind**	**Equity -settled share-based compensation**	**Pension scheme contributions**	**Total remuneration**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2011					
Executive directors:					
Liu Dejian	—	—	—	—	—
Gao Xiang	—	—	—	—	—
Lin Dongliang	—	—	—	—	—
Tay Choon Chong	—	—	—	—	—
Wu Chak Man	—	387	—	5	392
Chen Hongzhan	—	323	—	5	328
	—	710	—	10	720
Year ended 31 December 2012					
Executive directors:					
Liu Dejian	—	—	1,496	—	1,496
Gao Xiang	—	—	—	—	—
Tay Choon Chong	—	—	—	—	—
Wu Chak Man	—	598	1,704	6	2,308
Chen Hongzhan	—	233	1,497	7	1,737
	—	831	4,697	13	5,541

	Fees	Salaries allowances and benefits in kind	Equity -settled share-based compensation	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Three-month period ended 31 March 2012 (Unaudited)					
Executive directors:					
Liu Dejian	—	—	—	—	—
Gao Xiang	—	—	—	—	—
Tay Choon Chong	—	—	—	—	—
Wu Chak Man	—	194	—	1	195
Chen Hongzhan	—	57	—	1	58
	—	251	—	2	253
Three-month period ended 31 March 2013					
Executive directors:					
Liu Dejian	—	—	686	—	686
Gao Xiang	—	—	—	—	—
Tay Choon Chong	—	—	—	—	—
Wu Chak Man	—	562	781	3	1,346
Chen Hongzhan	—	26	686	1	713
	—	588	2,153	4	2,745

9 FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the 91 Wireless Group during the Relevant Periods and the three-month period ended 31 March 2012 is as follows:

	Number of employees			
	Year ended 31 December		Three-month period ended 31 March	
	2011	2012	2012	2013
Director	2	3	—	2
Non-director	3	2	5	3
	5	5	5	5

Details of directors' remuneration are set out in note 8 above.

Details of the remuneration of the above non-director highest paid employees are as follows:

	Year ended 31 December		Three-month period ended 31 March	
	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Salaries, allowances and benefits in kind	1,007	627	285	414
Equity-settled share-based compensation	33	1,780	1,718	2,166
Pension scheme contributions	6	3	4	4
	1,046	2,410	2,007	2,584

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees			
	Year ended 31 December		Three-month period ended 31 March	
	2011	2012	2012	2013
Nil to RMB1,000,000	3	—	5	3
RMB1,000,000 to RMB2,000,000	—	2	—	—
	3	2	5	3

During the Relevant Periods and the three-month period ended 31 March 2012, shares options and share awards were granted and awarded to non-director highest paid employees in respect of their services to the 91 Wireless Group, further details of which are included in the disclosures in note 28 to the Financial Information. The fair value of these options and shares, which has been recognised in profit or loss over the vesting period, was determined at the date of grant or award and the amount included in the financial statements for the reporting periods is included in the above non-director highest paid employees' remuneration disclosures.

10 INCOME TAX

The 91 Wireless Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the 91 Wireless Group are domiciled and operate.

The income tax expense of the 91 Wireless Group for the Relevant Periods and the three-month period ended 31 March 2012 is analysed as follows:

	Year ended 31 December		Three-month period ended 31 March	
	2011	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Group:				
Current				
— Mainland China	—	24,401	—	19,089
— Hong Kong	—	819	—	56
	—	25,220	—	19,145
Deferred (note 24)	—	3,006	—	4,063
Total tax charge for the year/period	—	28,226	—	23,208

Pursuant to the rules and regulations of the Cayman Islands and BVI, the 91 Wireless Group is not subject to any income tax in the Cayman Islands and BVI.

Hong Kong profits tax is to be provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of certain PRC subsidiaries of the 91 Wireless Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the "New Corporate Income Tax Law"), except for certain subsidiaries of the 91 Wireless Group in Mainland China which are granted tax concession and are taxed at preferential rates.

According to the New Corporate Income Tax Law and its Implementation Rules, high-new technology enterprises are entitled to the preferential tax rate of 15%. Pursuant to the approval of the tax bureau, Fuzhou Boyuan was qualified as a high-new technology company in November 2012 and enjoyed a favorable CIT tax rate of 15% from year 2012 to year 2014. Therefore, Fuzhou Boyuan was subject to CIT at a rate of 25% for the year ended 31 December 2011 and 15% for the year ended 31 December 2012 and the three-month period ended 31 March 2013.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates in Mainland China to the tax expense at the effective tax rates is as follows:

Group

	Year ended 31 December		Three-month period ended 31 March	
	2011	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Profit/(loss) before tax	(36,710)	(231,793)	(9,747)	94,475
At the PRC's statutory income tax rate of 25%	(9,178)	(57,948)	(2,437)	23,619
Effect of different tax rates for companies operating in other jurisdictions	5,064	82,896	3,805	(3,924)
Effect of withholding tax at 10% on the distributable profits of the 91 Wireless Group's PRC subsidiaries	—	5,840	—	5,161
Tax effect of tax concession and allowances	—	(2,878)	—	(3,089)
Losses/(profits) attributable to a joint venture	—	305	—	(253)
Losses attributable to associates	98	228	57	98
Expenses not deductible for tax	508	3,191	1,770	1,563
Tax losses not recognised	3,508	106	—	33
Utilisation of tax losses previously not recognised	—	(3,514)	(3,195)	—
Tax charge at the 91 Wireless Group's effective rate	—	28,226	—	23,208

11 DIVIDENDS

Except for the special dividend of 381,000 ordinary shares issued to NetDragon (BVI) for the purpose of rationalizing the shareholding structure on 8 August 2011, no other dividend has been paid or declared by 91 Wireless since its incorporation.

12 EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

No earnings/(loss) per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the preparation of the Financial Information for the Relevant Periods and the three-month period ended 31 March 2012 as disclosed in note 2.1 above.

13 PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit/(loss) attributable to owners of the parent for the years ended 31 December 2011 and 2012, and the three-month period ended 31 March 2013 include profit/(loss) of RMB(24,186,000), RMB(334,665,000) and RMB15,642,000 which have been dealt with in the financial statements of 91 Wireless (note 29).

14 PROPERTY, PLANT AND EQUIPMENT

Group

	Computer and office equipment *RMB'000*
31 December 2011	
At 1 January 2011:	
Cost	3,045
Accumulated depreciation	(1,818)
Net carrying amount	1,227
At 1 January 2011, net of accumulated depreciation	1,227
Additions	807
Depreciation provided during the year	(572)
Deemed contribution from equity holders (note 30)	(462)
At 31 December 2011, net of accumulated depreciation	1,000
At 31 December 2011:	
Cost	2,523
Accumulated depreciation	(1,523)
Net carrying amount	1,000

	Computer and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
31 December 2012			
At 1January 2012:			
Cost	2,523	—	2,523
Accumulated depreciation	(1,523)	—	(1,523)
Net carrying amount	1,000	—	1,000
At 1 January 2012, net of accumulated depreciation	1,000	—	1,000
Additions	5,561	569	6,130
Depreciation provided during the year	(944)	—	(944)
At 31 December 2012, net of accumulated depreciation	5,617	569	6,186
At 31 December 2012:			
Cost	8,084	569	8,653
Accumulated depreciation	(2,467)	—	(2,467)
Net carrying amount	5,617	569	6,186

	Computer and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
31 March 2013			
At 1 January 2013:			
Cost	8,084	569	8,653
Accumulated depreciation	(2,467)	—	(2,467)
Net carrying amount	5,617	569	6,186
At 1 January 2013, net of accumulated depreciation	5,617	569	6,186
Additions	84	20	104
Disposal	(8)	—	(8)
Depreciation provided during the period	(529)	(28)	(557)
At 31 March 2013, net of accumulated depreciation	5,164	561	5,725
At 31 March 2013:			
Cost	8,160	589	8,749
Accumulated depreciation	(2,996)	(28)	(3,024)
Net carrying amount	5,164	561	5,725

15 INVESTMENTS IN SUBSIDIARIES

Company

	31 December 2011 *RMB'000*	31 December 2012 *RMB'000*	31 March 2013 *RMB'000*
Unlisted shares in subsidiaries, at cost	121	121	121
Capital contribution in respect of employee equity-settled share-based compensation	—	6,841	13,116
	121	6,962	13,237

The amounts due from subsidiaries included in 91 Wireless's non-current assets of RMB30,942,000, RMB85,112,000 and RMB83,633,000 as at 31 December 2011 and 2012 and 31 March 2013 respectively, are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to a subsidiary included in 91 Wireless's current liabilities of nil, RMB1,752,000 and RMB2,268,000 as at 31 December 2011 and 2012 and 31 March 2013, respectively, are unsecured, interest-free and are repayable on demand.

16 INVESTMENTS IN A JOINT VENTURE

Group

	31 December 2012	31 March 2013
	RMB'000	*RMB'000*
Carrying amount at beginning of year/period	—	18,015
Cost of investments	19,406	—
Share of profits/(losses)	(1,391)	1,013
Carrying amount at end of year/period	18,015	19,028

Particulars of the joint venture are as follows:

Name	Place and date of registration	Percentage of equity interest attributable to 91 Wireless: Direct	Percentage of equity interest attributable to 91 Wireless: Indirect	Nominal value of issued/registered share capital	Principal activities
Jiangsu BoDeWebsoft Technology Ltd. ("Jiangsu BoDe")	PRC 2 August 2012	—	51%	US$6,000,000	Websoft information technology and game research, development and related advisory services

The 91 Wireless Group considered the existence of substantive participating rights held by the minority shareholder which provide that shareholder with a veto right over the significant financial and operating policies of Jiangsu BoDe and determined that as a result of these rights, the 91 Wireless Group did not have control over Jiangsu BoDe despite the 91 Wireless Group's 51% ownership interest.

The investments in a joint venture are indirectly held by 91 Wireless. The following table illustrates the summarised financial information of the 91 Wireless Group's joint venture extracted from their management accounts or financial statements:

	31 December 2012	31 March 2013
	RMB'000	*RMB'000*
Total assets	38,996	43,171
Total liabilities	3,672	5,861

	Year ended 31 December 2012	Three-month period ended 31 March 2013
	RMB'000	*RMB'000*
Revenues	1,426	5,282
Profit/(loss) attributable to equity holders	(2,727)	1,986

17 INVESTMENTS IN ASSOCIATES

Group

	31 December		31 March
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	—	4,358	3,946
Cost of investments	4,750	500	—
Share of losses	(392)	(912)	(390)
Carrying amount at end of year/period	4,358	3,946	3,556

	31 December		31 March
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	1,740	1,328	938
Goodwill on acquisition	2,618	2,618	2,618
	4,358	3,946	3,556

Particulars of the associates are as follows:

Name	Place and date of registration	Percentage of equity interest attributable to 91 Wireless		Nominal value of issued/registered share capital	Principal activities
		Direct	Indirect		
Associates					
Jinan CloverTek Co., Ltd ("Jinan CloverTek")	PRC 18 August 2010	—	12%	RMB579,600	Development and distribution of mobile games and applications
Shanghai Bogu Information Technology Co., Ltd. ("Shanghai Bogu")	PRC 28 September 2011	—	35%	RMB5,000,000	Development and distribution of mobile games and applications
Beijing Miku Beixian Software Technology Co., Ltd. ("Beijing Miku")	PRC 27 September 2012	—	50%	RMB1,000,000	Development and operation service on TV Android application market

In 2011, the 91 Wireless Group acquired Jinan CloverTek from independent third parties with an aggregated fair value of assets and liabilities attributable to the interests acquired by the 91 Wireless Group of approximately RMB382,000 at a total consideration of RMB3,000,000. The investment costs of Jinan CloverTek included goodwill of approximately RMB2,618,000. The 91 Wireless Group holds 12% of the equity interests of Jinan CloverTek and has right to appoint one director out of three directors in the board. Therefore, Jinan CloverTek is classified as an associate of the 91 Wireless Group. Other associates were established by the 91 Wireless Group.

The statutory financial statements of all the associates above were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

All associates are held through wholly-owned subsidiaries of 91 Wireless.

Group

The following table illustrates the summarised financial information of the 91 Wireless Group's associates extracted from their management accounts or financial statements:

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	6,940	4,625	3,435
Total liabilities	29	19	38

	Year ended 31 December		Three-month period ended 31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	375	314	45
Loss attributable to equity holders	(1,510)	(3,305)	(1,209)

18 TRADE RECEIVABLES

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	5,596	42,833	52,559
Impairment	—	—	—
	5,596	42,833	52,559

The credit period is generally within three months. The 91 Wireless Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the 91 Wireless Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The 91 Wireless Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of provisions, is as follows:

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	620	25,900	22,896
1 to 2 months	1,054	10,522	10,279
2 to 3 months	1,581	3,383	8,687
3 to 6 months	1,716	2,374	9,519
Over 6 months	625	654	1,178
	5,596	42,833	52,559

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	3,255	41,715	46,170
Less than 1 month past due	552	155	1,993
1 to 3 months past due	1,164	309	3,228
Over 3 months past due	625	654	1,168
	5,596	42,833	52,559

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the 91 Wireless Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The 91 Wireless Group does not hold any collateral or other credit enhancements over these balances.

19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Deposits and other receivables	5,773	7,616	16,092
Prepaid expense	1,200	800	550
Corporate Income Tax recoverable	1,010	—	—
	7,983	8,416	16,642

Company

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Deposits and other receivables	—	779	1,150
	—	779	1,150

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20 TIME DEPOSITS WITH ORIGINAL MATURITY OF MORE THAN THREE MONTHS

Group and Company

The time deposits are fixed term deposits of US$16.3 million in China Minsheng Banking Corp., Ltd. Hong Kong Branch from 6 July 2012 to 5 July 2013 at interest rate of 1.5% per annum.

21 CASH AND CASH EQUIVALENTS

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances			
Denominated in RMB	20,323	169,476	280,600
Denominated in US$	173,866	64,261	325,418
Denominated in HK$	27	81	132
Cash and cash equivalents	194,216	233,818	606,150

Company

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances			
Denominated in US$	152,171	13,651	276,414
Denominated in HK$	4	4	41
Cash and cash equivalents	152,175	13,655	276,455

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the 91 Wireless Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the 91 Wireless Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

22 TRADE PAYABLES

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	811	6,233	5,485
1 to 2 months	—	1,850	2,582
2 to 3 months	—	1,812	2,385
Over 3 months	—	1,298	1,252
	811	11,193	11,704

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

23 OTHER PAYABLES AND ACCRUALS

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Advances from customers	7,020	6,922	9,829
Taxes other than income tax	2,257	5,640	9,165
Payroll payable	6,584	20,657	22,861
Other payables and accruals	11,135	64,240	106,495
	26,996	97,459	148,350

Company

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	616	3,487	4,874

24 DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax liabilities

	Withholding tax on distributable profits *RMB'000*
At 31 December 2011 and 1 January 2012	—
Deferred tax charged to profit or loss during the year (note 10)	5,840
At 31 December 2012 and 1 January 2013	5,840
Deferred tax charged to profit or loss during the period (note 10)	5,161
At 31 March 2013	11,001

Deferred tax assets

	Accrued expense *RMB'000*
At 31 December 2011 and 1 January 2012	—
Deferred tax credited to profit or loss during the year (note 10)	2,834
At 31 December 2012 and 1 January 2013	2,834
Deferred tax credited to profit or loss during the period (note 10)	1,098
At 31 March 2013	3,932

Deferred tax assets have not been recognised in respect of the following items:

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Tax losses	14,062	452	605

As at 31 December 2011 and 2012 and 31 March 2013, the 91 Wireless Group has tax losses arising in Hong Kong of RMB19,000, RMB78,000 and RMB138,000 that are available indefinitely for offsetting against future taxable profits.

As at 31 December 2011 and 2012 and 31 March 2013, the 91 Wireless Group also has tax losses arising in Mainland China of RMB14,043,000, RMB374,000 and RMB467,000 that will expire in five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in Mainland China and Hong Kong where it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the 91 Wireless Group, the applicable rate is 10%. The 91 Wireless Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax liabilities have been recognized for the accumulated undistributed earnings as of 31 December 2012 and 31 March 2013 of the subsidiaries established in Mainland China.

25 PROMISSORY NOTES

On 21 September 2011, 91 Wireless has issued the promissory notes with a total principal amount of US$5,000,000 (equivalent to approximately RMB31,774,000) to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investor L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as "IDG Investors"). The promissory notes bear no interest and become due and payable at the option of the note holders at any time on and after 20 March 2012 (the "Maturity Date"). The promissory notes bear interest of 8% per annum for the period from the date immediately after the Maturity Date and until the time the promissory notes are fully repaid.

The holders of promissory notes have the option to convert the entire principal amount of the promissory notes into such number of redeemable convertible preferred shares of 91 Wireless by dividing the entire principal amount of the promissory notes by a conversion price to be determined with reference to the then fair market value by 91 Wireless and the holders.

The valuation of the promissory notes as of 21 September 2011 was determined based on the present value of the cash flow at a discount rate of 15.64% with reference to valuation report carried out by an independent qualified professional valuer. The fair value of the promissory notes on 21 September 2011 was approximately US$4,652,000 (equivalent to approximately RMB29,565,000) and the difference of approximately US$348,000 (equivalent to approximately RMB2,209,000) between the fair value and the principal amount of the promissory notes at the initial recognition was recognised as deemed contribution from shareholders.

On 17 February 2012, all the promissory notes were converted into 4,006,250 shares of Series B redeemable convertible preferred shares ("Series B preferred shares") at conversion price of approximately US$1.248 per share (note 26).

26 REDEEMABLE CONVERTIBLE PREFERRED SHARES

On 13 August 2011, 91 Wireless issued 15,384,000 Series A redeemable convertible preferred shares ("Series A preferred shares") of a par value of US$0.0001 each at an aggregate issue price of US$3,999,840 (equivalent to approximately RMB25,587,000) to IDG Investors. 91 Wireless issued 12,018,750 Series B preferred shares of a par value of US$0.0001 each at an aggregate issue price of US$15,000,000 (equivalent to approximately RMB95,132,000) to Vertex Asia Growth Ltd., and IP Cathay II, L.P. on 15 December 2011 and issued 4,006,250 Series B preferred shares of a par value of US$0.0001 each at an aggregate issue price of US$5,000,000 (equivalent to approximately RMB31,504,000) to DT Capital China Growth Fund, L.P. on 30 December 2011.

On 17 February 2012, all the promissory notes were converted into 4,006,250 shares of Series B preferred shares at a conversion price of approximately US$1.248 per share and on the same date, 91 Wireless issued 2,403,750 Series B preferred shares at an aggregate issue price of US$3,000,000 (equivalent to approximately RMB18,885,000) to NetDragon (BVI). On 12 October 2012, 91 Wireless issued 1,602,500 Series B preferred shares of a par value of US$0.0001 each at an aggregate issue price of US$2,000,000 (equivalent to approximately RMB12,654,000) to Sino Coast Developments Limited ("Sino Coast"). As Sino Coast is controlled by the senior management of NetDragon (Cayman), the difference between the fair value of the Series B preferred shares issued and the consideration paid is debited to retained earnings as a distribution to shareholders.

On 10 January 2013, 91 Wireless issued 7,016,778 Series B preferred shares of a par value of US$0.0001 each at an aggregate issue price of US$17,500,000 (equivalent to approximately RMB109,888,000) to Pacific Century Diversified Limited, Grandwin Enterprises Limited and one individual investor, who purchased 5,813,902, 601,438 and 601,438 shares respectively.

Both Series A and Series B redeemable convertible preferred shares are denominated in United States dollars.

Conversion

Each preferred share shall be convertible at the option of the holder thereof and at any time after the date of issuance of such share. The initial conversion price is the issuance price, which results in a conversion ratio of 1:1. The conversion price is subject to adjustments, in the event of share splits, share combinations, share dividends or distribution, other dividends, recapitalization and similar events.

The preferred shares shall be automatically converted into ordinary shares upon the occurrence of a qualified initial public offering ("QIPO"). Upon the issuance of Series A preferred shares, QIPO means the pre-offering market capitalisation of 91 Wireless with no less than US$150,000,000 and the aggregate net proceeds to 91 Wireless in excess of US$50,000,000. After the issuance of Series B preferred shares, the QIPO definition has been unified and changed to "the pre-offering market capitalisation of 91 Wireless with no less than US$500,000,000 and the aggregate net proceeds to 91 Wireless in excess of US$150,000,000". This was a substantial modification to the Series A preferred shares.

Dividends

The holders of Series A preferred shares shall be entitled to receive dividends on an as-if converted basis, when, as and if declared by the board of 91 Wireless, in preference and priority to any declaration or payment of any distribution on ordinary shares in such calendar year. The right to receive dividends on Series A preferred shares shall not be cumulative, and no right to such dividends shall accrue to the holders if dividends are not declared in any calendar year.

Series B preferred shares has the same dividend right except its right is in preference and priority to any declaration or payment of any distribution on Series A preferred shares and ordinary shares in such calendar year.

Voting rights

The holders of preferred shares shall be entitled to vote on all matters on which the holders of ordinary shares shall be entitled to vote on an if-converted basis.

Redemption

At any time after the 5th but not later than the 10th anniversary of the issuance date of Series A preferred shares, by a written request signed by at least two-thirds of the holders, all outstanding Series A preferred shares shall be redeemed at an original issuance price of US$0.26 per share plus cumulative rate of return of 5% per annum, and any declared but unpaid dividends on such preferred shares.

At any time after the 4th anniversary of the issuance date of Series B preferred shares, by a written request signed by at least two-thirds of the holders, all outstanding Series B preferred shares shall be redeemed at an original issuance price of US$1.248 per share plus cumulative rate of return of 12% per annum, and any declared but unpaid dividends on such preferred shares.

On 9 December 2011, the redemption right exercise period of Series A preferred shares has been changed from "at any time after the 5th but not later than the 10th anniversary of the issuance date of Series A preferred shares" to "at any time after the 4th anniversary of the issuance date of Series B preferred shares". This was a substantial modification to the Series A preferred shares.

Upon the issuance of Series B preferred shares on 10 January 2013, the redemption right exercise period of Series A preferred shares and Series B preferred shares was changed from "at any time after the 4th anniversary of the issuance date of Series B preferred shares" to "at any time after the 3rd anniversary of 9 December 2011". This was a substantial modification to the Series A preferred shares and Series B preferred shares.

Liquidation

The holders of the Series A preferred shares have preference over holders of ordinary shares with respect to payment of dividends and distribution of assets or surplus funds upon voluntary or involuntary liquidation of 91 Wireless. The holders of the Series A preferred shares shall be entitled to receive at the original issuance price of US$0.26 per share plus 5% per annum cumulative rate of return upon liquidation.

The holders of the Series B preferred shares have preference over holders of Series A preferred shares and ordinary shares with respect to payment of dividends and distribution of assets or surplus funds upon voluntary or involuntary liquidation of 91 Wireless. The holders of the Series B preferred shares shall be entitled to receive at the original issuance price of US$1.248 per share plus 12% per annum cumulative rate of return upon liquidation.

Both Series A preferred shares and Series B preferred shares contain two components, liability and conversion option derivative liabilities. The liability component was initially recognised at fair value and subsequently measured at amortized costs using effective interest method. The effective interest rates of the liability components of the Series A preferred shares and Series B preferred shares dated on 15 December 2011, Series B preferred shares dated on 30 December 2011, Series B preferred shares dated on 17 February 2012, Series B preferred shares dated on 12 October 2012, Series B preferred shares dated on 10 January 2013 are 17.80%, 14.58%, 14.88%, 14.55%, 16.33% and 17.08%, respectively. The conversion option derivative is measured at fair value with subsequent changes recognised in profit or loss. The substantial modification to Series A preferred shares and Series B preferred shares was accounted for as a derecognition of the original financial instrument and the recognition of a new financial instrument with differences recognised in profit or loss. The effective interest rate of the liability component of the Series A preferred shares after modification on 9 December 2011 is 17.95%. The effective interest rate of the liability component of the Series A preferred shares and Series B preferred shares after modification on 10 January 2013 is 17.08%.

On 27 March 2013, all the holders of the preferred shares converted their respective preferred shares into the ordinary shares of 91 Wireless at a conversion ratio of 1:1. Upon the conversion, a shareholders' agreement was entered into among the 91 Wireless Group, NetDragon (BVI), the Series A preferred shares investors and the Series B preferred shares investors regarding the rights and obligations of the shareholders of 91 Wireless and setting out the arrangements between them. According to the shareholder agreement, all shareholders agreed that Series A preferred shares and Series B preferred shares investors shall have preferential dividend and liquidation rights as following:

Preferential dividend right

Dividends payable on ordinary shares held by all the Series A preferred shares investors, the Series B preferred shares investors and NetDragon (BVI) together should be pooled together (the "Pooled Dividends") and distributed among the Series A preferred shares investors, the Series B preferred shares investors and the NetDragon (BVI) in the way that first the Series B preferred shares investors receive dividends out of the Pooled Dividends on their ordinary shares held in preference and priority to any payment of any dividends or distribution to the Series A preferred shares investors and NetDragon (BVI), then the Series A preferred shares investors receive dividends out of the Pooled Dividends on their ordinary shares held. After the full payment to Series B and A preferred shares investors, the rest dividends out of the Pooled Dividends are distributed to NetDragon (BVI).

Preferential liquidation right

In the event of any liquidation event of 91 Wireless, either voluntary or involuntary, the aggregate proceeds or assets of 91 Wireless legally available to be distributed on ordinary shares held by all the Series A preferred shares investors, the Series B preferred shares investors and NetDragon (BVI) together shall be pooled together (the "Pooled Liquidation Proceeds") and distributed among the Series A preferred shares investors, the Series B preferred shares investors and NetDragon (BVI) in the way that first the Series B preferred shares investors receive, prior and in preference to any distribution of any of the Pooled Liquidation Proceeds to the Series A preferred shares investors and NetDragon (BVI), an amount equal to Series B preferred shares redemption price, then the Series A preferred shares investors receive distribution equal to an amount of Series A preferred shares redemption price. After the payment to the Series B preferred shares investors and the Series A preferred shares investors, the remaining amount in the Pooled Liquidation Proceeds shall be distributed with equal priority and pro rata in proportion to the number of the ordinary shares held by the Series A preferred shares investors, the Series B preferred shares investors and NetDragon (BVI).

Upon the occurrence of the initial public offering of 91 Wireless, the shareholders' agreement shall terminate and all the terms and conditions contained therein shall cease to have any effect whatsoever on any party thereto.

The movements of the liability component and conversion option derivatives liabilities of Series A preferred shares and Series B preferred shares for the period are set out as below:

	Liability component *RMB'000*	Conversion option derivative Liabilities *RMB'000*
1 January 2011	—	—
At initial recognition	129,817	22,406
Interest charge	1,450	—
Substantial modifications	1,193	—
Loss arising on changes of fair value	—	18,192
Exchange realignment	(794)	(299)
31 December 2011	131,666	40,299
At initial recognition	28,738	3,542
Converted from promissory notes	28,823	2,254
Interest charge	26,174	—
Loss arising on changes of fair value	—	286,453
Exchange realignment	(601)	(1,325)
31 December 2012	214,800	331,223
At initial recognition	99,990	9,898
Interest charge	11,341	—
Substantial modifications	(292)	—
Gain arising on changes of fair value	—	(36,427)
Exchange realignment	(552)	(647)
Conversion to ordinary shares	(325,287)	(304,047)
31 March 2013	—	—

The fair value of each underlying share of 91 Wireless is estimated using a discounted cash flow model, which included certain assumptions that are not supportable by observable market prices or rates. In determining the fair value, weighted average cost of capital of 18.19%, 17.37%, 17.31%, 17.31%, 17.17%, 16.95%, 15.55%, 15.36% and 15.24% were used as at 13 August 2011, 15 December 2011, 30 December 2011, 31 December 2011, 17 February 2012, 12 October 2012, 31 December 2012, 10 January 2013 and 27 March 2013 respectively.

The assumptions adopted for the valuation of the conversion option derivative component of the redeemable convertible preferred shares as of 13 August 2011, 15 December 2011, 30 December 2011, 31 December 2011, 17 February 2012, 12 October 2012, 31 December 2012, 10 January 2013 and 27 March 2013 were as follows:

Series A preferred shares:

	13 August 2011	31 December 2011	31 December 2012	27 March 2013
Risk-free interest rate (a)	1.03%	0.61%	0.37%	0.22%
Expected volatility (b)	53.14%	52.07%	38.82%	38.16%

Series B preferred shares:

	15 December 2011	30 December 2011	31 December 2011	17 February 2012	12 October 2012	31 December 2012	10 January 2013	27 March 2013
Risk-free interest rate (a)	0.59%	0.61%	0.61%	0.57%	0.37%	0.37%	0.26%	0.22%
Expected volatility (b)	52.91%	52.07%	52.07%	49.42%	40.15%	38.82%	38.09%	38.16%

Notes:

(a) Risk-free interest rate was used by reference to the United States Treasury Bond Rate at the valuation date.

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

The fair values were determined by the directors with reference to valuation carried out by an independent qualified professional valuer.

27 SHARE CAPITAL

Shares

	Notes	Number of ordinary shares	Nominal value of ordinary shares US$
Authorised:			
Authorization of ordinary shares upon incorporation	(a)	50,000,000	50,000
Subdivision of ordinary shares	(d)	450,000,000	—
Reduction of ordinary shares	(g)	(403,500,000)	(40,350)
Increase of authorized ordinary shares	(h)	67,500,000	6,750
At 31 December 2011 and 2012		164,000,000	16,400
Increase of authorized ordinary shares	(j)	1,830,500,000	183,050
At 31 March 2013		1,994,500,000	199,450

	Notes	Number of Ordinary Shares	Nominal value of Ordinary Shares US$	Equivalent nominal value of Ordinary Shares RMB'000
Issued and fully paid:				
Issuance of ordinary shares upon incorporation	(a)	1	—	—
Repurchase of ordinary shares	(b)	(1)	—	—
Issuance of ordinary shares	(b)	18,399,999	18,400	121
Issuance of ordinary shares	(c)	1	—	—
Subdivision of ordinary shares	(d)	165,600,000	—	—
Repurchase of ordinary shares	(d)	(113,230,000)	(11,323)	(74)
Shares issued to depository trust	(e)	9,615,000	—	—
Issuance of ordinary shares	(f)	381,000	38	—
At 31 December 2011		80,766,000	7,115	47
Settlement of share award exercised with shares held by depository trust	(i)	(2,907,428)	—	—
Exercise of share award scheme	(i)	2,907,428	291	2
At 31 December 2012		80,766,000	7,406	49
Issuance of ordinary shares	(j)	13,131,278	1,313	8
Settlement of share award exercised with shares held by depository trust	(k)	(416,150)	—	—
Exercise of share award scheme	(k)	416,150	42	—
Conversion of redeemable convertible preferred shares	(l)	46,438,278	4,644	29
At 31 March 2013		140,335,556	13,405	86

Notes:

(a) As at 4 January 2011, the date of incorporation, the authorised share capital of 91 Wireless was US$50,000 divided into 50,000,000 ordinary shares of a nominal value of US$0.001 each. On 4 January 2011, 91 Wireless issued one share at par value to Gary Smith.

(b) On 27 January 2011, 91 Wireless repurchased one share from Gary Smith at par value. On the same date, NetDragon (BVI) and 91 Wireless entered into a capital contribution agreement, pursuant to which the entire interest in Talent Zone was transferred from NetDragon (BVI) to 91 Wireless. In consideration of the said transfer, 91 Wireless allotted and issued 18,399,999 ordinary shares with a par value of US$0.001 each to NetDragon (BVI).

(c) On 23 March 2011, 91 Wireless issued one ordinary share at par value to NetDragon (BVI).

(d) On 9 May 2011, every issued and unissued ordinary share of US$0.001 each was subdivided into 10 shares of US$0.0001 each. On the same date after the subdivision, 91 Wireless repurchased 113,230,000 ordinary shares from NetDragon (BVI) at a consideration of US$1. The difference between par value and the consideration was credited into capital reserve.

(e) On 8 August 2011, 91 Wireless issued 9,615,000 ordinary shares at par value to Treasure New Limited, a wholly-owned subsidiary of NetDragon (BVI). On 28 December 2011, Treasure New Limited transferred the 9,615,000 ordinary shares at par value to a depository trust to set up a share award scheme of 91 Wireless.

(f) On 8 August 2011, 91 Wireless issued 381,000 ordinary shares to NetDragon (BVI) as special dividend.

(g) On 13 August 2011, 91 Wireless reduced its authorized ordinary shares from 500,000,000 to 96,500,000 at a par value of US$0.0001 each.

(h) On 9 December 2011, 91 Wireless increased its authorized ordinary shares from 96,500,000 to 164,000,000 at a par value of US$0.0001 each.

(i) During the year ended 31 December 2012, 2,907,428 ordinary shares in aggregate were vested and exercised.

(j) On 9 January 2013, 91 Wireless increased its authorized ordinary shares from 164,000,000 to 1,994,500,000 at a par value of US$0.0001 each. On the same date, 91 Wireless issued 13,131,278 ordinary shares to NetDragon (BVI) for a consideration of US$25,131,201 (equivalent to approximately RMB157,858,000).

(k) During the three-month period ended 31 March 2013, 416,150 ordinary shares in aggregate were vested and exercised.

(l) On 27 March 2013, all the holders of the preferred shares converted their respective preferred shares into the ordinary shares of 91 Wireless at a conversion ratio of 1:1.

28 SHARE OPTION SCHEME

(a) Stock Incentive Plan of NetDragon (Cayman)

During the Relevant Periods, NetDragon (Cayman) granted share options to certain employees who worked for the Acquired Businesses. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model by referring to the valuation carried out by an independent qualified professional valuer.

A summary of the movement of option activity, relating to the options held by employees of 91 Wireless under the NetDragon (Cayman)'s Stock Incentive Plan during the Relevant Periods, is presented as follows:

The following table discloses the movements of the share options during the Relevant Periods:

Option batch	Exercise price HK$	Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2011
Batch 1	4.8	—	1,025,400	—	(43,000)	982,400
Batch 2	4.6	—	33,500	—	—	33,500
		—	1,058,900	—	(43,000)	1,015,900
Exercisable at 31 December 2011						—
Weighted average exercise price						4.79

Option batch	Exercise price HK$	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2012
Batch 1	4.8	982,400	—	—	(90,900)	891,500
Batch 2	4.6	33,500	—	—	—	33,500
		1,015,900	—	—	(90,900)	925,000
Exercisable at 31 December 2012						93,000
Weighted average exercise price						4.79

Option batch	Exercise price HK$	Outstanding at 1 January 2013	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 31 March 2013
Batch 1	4.8	891,500	—	(21,300)	(3,150)	867,050
Batch 2	4.6	33,500	—	—	—	33,500
		925,000	—	(21,300)	(3,150)	900,550
Exercisable at 31 March 2013						71,700
Weighted average exercise price						4.79

The total fair values of options expensed during the years ended 31 December 2011 and 2012, and the three-month period ended 31 March 2013 were RMB408,000, RMB416,000 and RMB82,000, respectively. As at 31 March 2013, there was total unrecognised compensation cost of RMB621,000 related to options for which services had not been provided. That cost is expected to be recognised till the year ended 31 December 2016.

There were no capitalized equity-settled share-based compensation costs during the years ended 31 December 2011 and 2012, and the three-month period ended 31 March 2013.

(b) **Share award scheme of 91 Wireless**

91 Wireless adopted a share award scheme on 28 December 2011 (the "Share Award Scheme"), which will be valid and effective for a term of 10 years. The participants include senior management employee of the 91 Wireless Group, any consultant and any person who contributes to the operation and development of the 91 Wireless Group determined by the Board of 91 Wireless. The Board may, from time to time, at its sole and absolute discretion, select any participant as a selected participant for participation in the Share Award Scheme. 91 Wireless has engaged a depository trust, Bank of Communications Trustee Limited (the "Trust"), for the purpose of administration of the Share Award Scheme and Treasure New Limited transferred the 9,615,000 shares to the Trust for future grant to scheme participants on 28 December 2011. The selected participant shall not have any interest or rights to vote or receive dividends or cash income in the awarded shares until the awarded shares are vested.

On 8 February 2012, 91 Wireless awarded 2,981,300 shares from the Trust to certain selected participants pursuant to the Share Award Scheme. Among the shares granted on 8 February 2012, relevant vesting date and number of awarded shares to be vested are listed below:

Grant Date	Relevant vesting date	No. of awarded shares to be vested
8 February 2012	8 February 2012	823,983
8 February 2012	7 June 2012	823,983
8 February 2012	7 June 2013	823,983
8 February 2012	7 June 2014	509,351

On 31 December 2012, 91 Wireless awarded 6,751,250 shares from the Trust to certain selected participants pursuant to the Share Award Scheme. With the consent of participants, 3,507,850 and 1,570,000 awarded shares were transferred to Cantrust (Far East) Limited and SMP Trustees (NZ) Limited to be held on behalf of these participants. Among the shares granted on 31 December 2012, 3,544,350 awarded shares were awarded to the employees of the NetDragon (Cayman) and 1,570,000 awarded shares were awarded to the directors of 91 Wireless. For these selected participants who are the employees of the NetDragon (Cayman) and are not working for the 91 Wireless Group, the related fair value of the awarded shares was debited into retained earnings as a distribution to shareholders. Among the shares granted on 31 December 2012, relevant vesting date and number of awarded shares to be vested are listed below:

Grant Date	Relevant vesting date	No. of awarded shares to be vested
31 December 2012	31 December 2012	1,269,462
31 December 2012	31 January 2013	418,350
31 December 2012	31 December 2013	1,269,462
31 December 2012	31 January 2014	418,350
31 December 2012	31 December 2014	1,269,462
31 December 2012	31 January 2015	418,350
31 December 2012	31 December 2015	1,269,464
31 December 2012	31 January 2016	418,350

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value is determined by 91 Wireless with the assistance of an independent appraisal firm and is estimated on the date of grant using the enterprise value allocation ("EVA") model. The fair value of awarded shares granted on 8 February 2012 and 31 December 2012 was US$0.46 per share and US$1.90 per share, respectively. Total expenses of approximately RMB12,444,000 and RMB8,972,000 were recognised for the year ended 31 December 2012 and the three-month period ended 31 March 2013.

Movements in the share awards during the Relevant Periods are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2011	—	—
Allotted	9,615,000	—
At 31 December 2011 and 1 January 2012	9,615,000	—
Granted on 8 February 2012	(2,981,300)	2,981,300
Lapsed	117,550	(117,550)
Granted on 31 December 2012	(6,751,250)	6,751,250
Vested and excised	—	(2,907,428)
At 31 December 2012 and 1 January 2013	—	6,707,572
Lapsed	28,625	(28,625)
Vested and excised	—	(416,150)
At 31 March 2013	28,625	6,262,797
Exercisable as at 31 March 2013		—

29 RESERVES

Group

(a) ***Merger reserve***

The merger reserve of the 91 Wireless Group represents the reserves arose pursuant to the Reorganisation as mentioned in note 2.1 of Section II to the Financial Information.

(b) ***Statutory surplus reserve***

Pursuant to the PRC Company Law and the respective entities' articles of association, the 91 Wireless Group's subsidiaries established in the PRC shall appropriate 10% of their annual statutory net profit (determined in accordance with the PRC accounting principles and regulations and after offsetting any prior years' losses) to the statutory reserve until such reserve fund reaches 50% of the share capital of these entities. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, except for offsetting prior years' losses, such reserve must be maintained at a minimum of 25% of the share capital after usage.

Company

	Share premium *RMB'000*	Other reserve *RMB'000*	Equity-settled share-based compensation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2011	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	(24,186)	(24,186)
Repurchase of shares	74	—	—	—	74
Deemed contribution from a substantial shareholder	—	2,209	—	—	2,209
At 31 December 2011	74	2,209	—	(24,186)	(21,903)
Total comprehensive loss for the year	—	—	—	(334,665)	(334,665)
Equity-settled share award expense	—	—	22,031	(9,587)	12,444
Exercise of share awards	19,969	—	(19,971)	—	(2)
Issuance of preferred shares to Sino Coast (note 26)	—	—	—	(741)	(741)
At 31 December 2012	20,043	2,209	2,060	(369,179)	(344,867)
Total comprehensive income for the period	—	—	—	15,642	15,642
Equity-settled share award expense	—	—	14,692	(5,720)	8,972
Exercise of share awards	5,006	—	(5,006)	—	—
Conversion of preferred shares (note 27)	629,305	—	—	—	629,305
Issuance of ordinary shares (note 27)	157,850	—	—	—	157,850
At 31 March 2013	812,204	2,209	11,746	(359,257)	466,902
(Unaudited)					
At 1 January 2012	74	2,209	—	(24,186)	(21,903)
Total comprehensive loss for the period	—	—	—	(14,775)	(14,775)
Equity-settled share award expense	—	—	3,999	—	3,999
Exercise of share awards	2,395	—	(2,395)	—	—
At 31 March 2012	2,469	2,209	1,604	(38,961)	(32,679)

30 EFFECT ON CONTRIBUTION FROM EQUITY HOLDERS TO 91 WIRELESS

As mentioned in note 2.1, the 91 Wireless Group acquired the mobile operation business together with the intellectual properties, rights to use registered domain name, trademarks and equipment except servers from subsidiaries of NetDragon (Cayman) on 13 August 2011. RMB5,000,000 paid for Net Assets Acquired was recorded as a deemed distribution to equity holders. The Net Liabilities Retained summarised as below were accounted for contribution from equity holders to 91 Wireless. An analysis of Net Liabilities Retained is as follows:

	13 August 2011
	RMB'000
NON-CURRENT ASSETS	
Equipment	462
Total non-current assets	462
CURRENT ASSETS	
Trade receivables	1,240
Due from a related party	16,438
Total current assets	17,678
CURRENT LIABILITIES	
Trade payables	547
Other payables and accruals	487
Due to related parties	35,294
Total current liabilities	36,328
NET LIABILITIES	(18,188)

31 CONTINGENT LIABILITIES

As at 31 December 2011 and 2012 and 31 March 2013, neither the 91 Wireless Group nor 91 Wireless had any significant contingent liabilities.

32 OPERATING LEASE ARRANGEMENTS

As lessee

At each reporting date, the 91 Wireless Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	31 December 2011	31 December 2012	31 March 2013
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,671	5,604	5,952
In the second to fifth years, inclusive	3,252	7,854	6,066
	4,923	13,458	12,018

The 91 Wireless Group is the lessee in respect of offices and apartments held under operating leases. The leases normally run for an initial period of one to two and a half years.

33 RELATED PARTY TRANSACTIONS

Details of the 91 Wireless Group's principal related parties are as follows:

Company	**Relationship**
NetDragon (Cayman)	Ultimate holding company
Liu Dejian	Substantial shareholder of NetDragon (Cayman) and executive director of 91 Wireless
NetDragon (BVI)	Direct holding company
NetDragon (Fujian)	Fellow subsidiary
TQ Digital	Fellow subsidiary
TQ Online	Fellow subsidiary
NetDragon Websoft (Hong Kong) Limited ("NetDragon (HK)")	Fellow subsidiary
Treasure New Limited	Fellow subsidiary
Fujian Tianyu Education Technology Limited ("Fujian Tianyu")	Fellow subsidiary
Jiangsu BoDe	Joint venture

Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851")	DJM Holding Ltd., the immediate holding company of NetDragon (Cayman), and Mr. Liu Dejian, together have 100% equity interest in this entity
Fuzhou Tianliang Network Technology Company Limited ("Fuzhou Tianliang")	Fuzhou Tianliang is an entity significant influenced by substantial shareholders of NetDragon (Cayman)

(a) In addition to the transactions detailed elsewhere in these financial statements, the 91 Wireless Group had the following transactions with related parties during the year/period:

Group

		Year ended 31 December		**Three-month period ended 31 March**	
		2011	**2012**	**2012**	**2013**
	Notes	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
After-sales service fee to a related party					
Fuzhou Tianliang		1,872	3,633	1,358	1,211
Rental expense to related parties					
TQ Digital	(1)	1,282	1,329	407	—
NetDragon (Fujian)	(2)	2,723	—	—	—
		4,005	1,329	407	—
Service fee at recreation centre to a related party					
Fuzhou 851		658	1,302	219	375
Loan from a related party					
TQ Digital		5,000	—	—	—
Finance cost to a related party					
TQ Digital	(3)	108	—	—	—

	Notes	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Three-month period ended 31 March 2012 RMB'000 (Unaudited)	Three-month period ended 31 March 2013 RMB'000
Purchases of servers from a related party					
NetDragon (Fujian)		—	730	—	—
Research and development service income from related parties					
Jiangsu BoDe		—	3,060	—	1,640
TQ Digital	(4)	—	—	—	668
		—	3,060	—	2,308
Server maintenance fee to a related party					
NetDragon (Fujian)		—	231	—	401
Transfer 91 Smartphone Games to a related party					
NetDragon (Fujian)	(4)	—	—	—	4,200

(1) The rental expense to TQ Digital was related to the lease of office buildings.

(2) The rental expense to NetDragon (Fujian) was related to the lease of servers.

(3) On 12 July 2011, one of the 91 Wireless Group's subsidiaries, Fuzhou BoYuan, entered into a loan agreement to borrow RMB5,000,000 from a related party of the 91 Wireless Group, TD Digital. The loan bears interest at a rate in accordance with the loan interest rate stipulated by the People's Bank of China for the corresponding period and the maturity date was 11 January 2012. Fuzhou BoYuan repaid the loan in amounts of RMB4,500,000 and RMB500,000 on 29 November 2011 and 26 December 2011, respectively.

(4) On 1 February 2013, 91 Wireless and NetDragon (Cayman) entered into a framework agreement. Under the agreement, 91 Wireless sold the copyrights of its 91 Smartphone Games to NetDragon (Cayman) at a consideration of RMB4,200,000, which is negotiated and agreed by both parties. In the meantime, (i) NetDragon (Cayman) agreed to grant a right to 91 Wireless in relation to carrying out the adaption works for converting online games owned by NetDragon (Cayman) into a version which is compatible with, and can be operated on 91 Wireless's platform and other third party platforms and (ii) 91 Wireless shall have the right to promote and distribute the mobile version of these games and other applications owned by NetDragon (Cayman). NetDragon (Cayman) shall

pay service fee to 91 Wireless calculated based on the number and remuneration of employees engaged. 91 Wireless shall pay NetDragon (Cayman) a fee equal to 30%-40% of the total revenue generated from these games and applications promoted by 91 Wireless after deduction of the services fee charged by the payment service provider, tax surcharges and third party cooperation fee. For the three-month period ended 31 March 2013, the adaption works service fee from TQ Digital were RMB668,000, while the total revenue generated from these games and applications promoted by Fujian BoRui were RMB5,980,000, among which RMB1,929,000 were paid to NetDragon (Fujian). The net proceeds of RMB 4,051,000 were recognized as revenue for the three-month period ended 31 March 31, 2013.

(b) Balances with related parties

The 91 Wireless Group had the following significant balances with its related parties during the Relevant Periods:

(i) Due from related parties:

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Jiangsu BoDe	—	3,060	4,700
Treasure New Limited	—	16	—
TQ digital	—	—	717
NetDragon (Fujian)	—	—	1,873
	—	3,076	7,290

Company

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Treasure New Limited	—	16	—
	—	16	—

(ii) Due to related parties:

Group

	31 December 2011	31 December 2012	31 March 2013
	RMB'000	*RMB'000*	*RMB'000*
NetDragon (Cayman)	3,621	4,262	4,254
NetDragon (HK)	1,381	1,259	2,525
NetDragon (Fujian)	6,579	740	—
TQ Digital	3,433	149	—
Fuzhou Tianliang	217	121	291
Fujian Tianyu	1	3	1
TQ Online	106	2	2
	15,338	6,536	7,073

Company

	31 December 2011	31 December 2012	31 March 2013
	RMB'000	*RMB'000*	*RMB'000*
NetDragon (Cayman)	554	1,371	1,371
NetDragon (HK)	1,333	1,163	1,157
	1,887	2,534	2,528

(c) Compensation of key management personnel of the 91 Wireless Group:

	Year ended 31 December		Three-month period ended 31 March	
	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short term employee benefits	1,255	1,795	460	547
Pension scheme contributions	8	14	3	6
Equity-settled share-based compensation	126	2,553	867	2,894
	1,389	4,362	1,330	3,447

Further details of directors' remuneration are included in note 8 to these Financial Information.

34 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

Financial assets

Group

	Loans and receivables		
	31 December		**31 March**
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	5,596	42,833	52,559
Financial assets included in prepayments, deposits and other receivables	5,773	7,616	16,092
Due from related parties	—	3,076	7,290
Time deposits with original maturity of more than three months	—	102,454	102,183
Cash and cash equivalents	194,216	233,818	606,150
	205,585	389,797	784,274

Company

	Loans and receivables		
	31 December		**31 March**
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Due from subsidiaries	30,942	85,112	83,633
Financial assets included in prepayments, deposits and other receivables	—	779	1,150
Due from related parties	—	16	—
Time deposits with original maturity of more than three months	—	102,454	102,183
Cash and cash equivalents	152,175	13,655	276,455
	183,117	202,016	463,421

Financial liabilities

Group

	Financial liabilities at amortised cost		
	31 December		31 March
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	811	11,193	11,704
Promissory notes	30,626	—	—
Financial liabilities included in other payables and accruals	11,135	64,240	106,495
Due to related parties	15,338	6,536	7,073
Redeemable convertible preferred shares	131,666	214,800	—
	189,576	296,769	125,272

	Financial liabilities at fair value through profit or loss		
	31 December		31 March
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Conversion option derivative liabilities	40,299	331,223	—

Company

	Financial liabilities at amortised cost		
	31 December		31 March
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Promissory notes	30,626	—	—
Financial liabilities included in other payables and accruals	616	3,487	4,874
Due to a subsidiary	—	1,752	2,268
Due to related parties	1,887	2,534	2,528
Redeemable convertible preferred shares	131,666	214,800	—
	164,795	222,573	9,670

	Financial liabilities at fair value through profit or loss		
	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Conversion option derivative liabilities	40,299	331,223	—

35 FAIR VALUE AND FAIR VALUE HIERARCHY

Financial instruments whose carrying amounts approximate fair values

Management has determined that the carrying amounts of cash and cash equivalents, trade receivables, deposits and other receivables, amount due from a related party, trade payables, promissory notes, other payables, amounts due to related parties and redeemable convertible preferred shares reasonably approximate to their fair values because these financial instruments are either short term in nature or repriced frequently.

Fair value hierarchy

The 91 Wireless Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value:

Group and Company

As at 31 December 2011

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Conversion option derivative liabilities	—	—	40,299	40,299

As at 31 December 2012

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Conversion option derivative liabilities	—	—	331,223	331,223

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The 91 Wireless Group did not have any financial assets measured at fair value as at 31 December 2011 and 2012 and 31 March 2013.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The 91 Wireless Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the 91 Wireless Group's operations. The 91 Wireless Group has various other financial assets and liabilities such as trade receivables, trade payables and other payables, which arise directly from its operations.

The main risks arising from the 91 Wireless Group's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

Interest rate risk

The 91 Wireless Group has no significant interest-bearing assets other than cash and cash equivalents (note 21).

The 91 Wireless Group's interest rate risk arises from its cash and cash equivalents, details of which are set out in note 21. Cash and cash equivalents at variable rates expose the 91 Wireless Group to the risk of changes in market interest rates.

The 91 Wireless Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The 91 Wireless Group's exposure to the risk of changes in market interest rates relates primarily to the 91 Wireless Group's debt obligations with a floating interest rate.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rates, with all other variables held constant, of the 91 Wireless Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/(decrease) in foreign currency rate	**Increase/(decrease) in profit before tax**
	%	*RMB'000*
Year ended 31 December 2011		
If RMB weakens against US$	5	(1,436)
If RMB strengthens against US$	(5)	1,436
Year ended 31 December 2012		
If RMB weakens against US$	5	(19,712)
If RMB strengthens against US$	(5)	19,712
If RMB weakens against HK$	5	41
If RMB strengthens against HK$	(5)	(41)
Three-month period ended 31 March 2013		
If RMB weakens against US$	5	21,412
If RMB strengthens against US$	(5)	(21,412)

Credit risk

The 91 Wireless Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, amount due from related parties, trade and other receivables and time deposits included in the Financial Information represent the 91 Wireless Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2011 and 2012 and 31 March 2013, all cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

The 91 Wireless Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the 91 Wireless Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

Group

	As at 31 December 2011					
	On Demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	—	811	—	—	—	811
Promissory notes	—	30,626	—	—	—	30,626
Other payables and accruals	7,619	3,516	—	—	—	11,135
Due to related parties	15,338	—	—	—	—	15,338
Redeemable convertible preferred shares	—	—	—	324,603	—	324,603
	22,957	34,953	—	324,603	—	382,513

	As at 31 December 2012					
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	3,110	8,083	—	—	—	11,193
Other payables and accruals	15,450	48,790	—	—	—	64,240
Due to related parties	6,536	—	—	—	—	6,536
Redeemable convertible preferred shares	—	—	—	323,809	—	323,809
	25,096	56,873	—	323,809	—	405,778

	As at 31 March 2013					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2,437	9,267	—	—	—	11,704
Other payables and accruals	42,435	64,060	—	—	—	106,495
Due to related parties	7,073	—	—	—	—	7,073
	51,945	73,327	—	—	—	125,272

Company

	As at 31 December 2011					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Promissory notes	—	30,626	—	—	—	30,626
Other payables and accruals	616	—	—	—	—	616
Due to related parties	1,887	—	—	—	—	1,887
Redeemable convertible preferred shares	—	—	—	324,603	—	324,603
	2,503	30,626	—	324,603	—	357,732

	As at 31 December 2012					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and accruals	3,487	—	—	—	—	3,487
Due to a subsidiary	1,752	—	—	—	—	1,752
Due to related parties	2,534	—	—	—	—	2,534
Redeemable convertible preferred shares	—	—	—	323,809	—	323,809
	7,773	—	—	323,809	—	331,582

	As at 31 March 2013					
	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and accruals	4,874	—	—	—	—	4,874
Due to a subsidiary	2,268	—	—	—	—	2,268
Due to related parties	2,528	—	—	—	—	2,528
	9,670	—	—	—	—	9,670

Capital management

The primary objectives of the 91 Wireless Group's capital management are to safeguard the 91 Wireless Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The 91 Wireless Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the 91 Wireless Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The 91 Wireless Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The 91 Wireless Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The 91 Wireless Group's policy is to keep the current ratio above 1. The current ratios as at the end of each of the Relevant Periods were as follows:

Group

	31 December		31 March
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Total current assets	207,795	390,597	784,824
Total current liabilities	73,984	138,962	204,843
Current ratio	2.81	2.81	3.83

37 MAJOR NON-CASH TRANSACTIONS

On 17 February 2012, all the promissory notes were converted into 4,006,250 shares of Series B preferred shares at conversion price of approximately US$1.248 per share, which did not result in any cash flows.

On 27 March 2013, all the holders of the preferred shares converted their respective preferred shares into the ordinary shares of 91 Wireless at a conversion ratio of 1:1, which did not result in any cash flows.

38 EVENTS AFTER THE REPORTING PERIOD

(a) On 29 April 2013, board of directors made the resolution to modify the vesting date of parts of awarded shares granted on 31 December 2012.

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

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

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

Grant Date	**Relevant vesting date**	**No. of awarded shares to be vested**
31 December 2012	30 April 2013	1,304,550
31 December 2012	7 June 2014	652,275

(b) On 25 July 2013, tax circular No.43 [2013] was issued and effective beginning on 1 January 2011. According to the tax circular No.43 [2013], enterprises, which were established before 31 December 2010 and qualified as a software enterprise, are entitled to a full exemption from corporate income tax for the first and second profitable years, and a 50% deduction of the statutory tax rate for the following three succeeding years. Fuzhou BoYuan was established on 6 September 2010 and qualified as software enterprise per relevant government regulations in September 2012. Therefore, Fuzhou BoYuan will be entitled to such preferential tax treatment under tax circular No. 43 [2013]. 2012 is the first profitable year for Fuzhou BoYuan. Fuzhou BoYuan is under the process of applying tax refund for the tax payment of RMB4,655,000 for 2012.

39 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by 91 Wireless or any of the companies comprising the 91 Wireless Group in respect of any period subsequent to 31 March 2013. In addition, no dividend has been declared, made or paid by 91 Wireless or any of the companies now comprising the 91 Wireless Group in respect of any period subsequent to 31 March 2013.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

As at the Latest Practicable Date, 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 SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner and through a controlled corporation	249,770,033(L)	48.93%
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%

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 Luyuan (Note 2)	The Company	Beneficial owner and through controlled corporation	250,921,033(L)	49.15%
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	249,450,033(L)	48.86%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan (Note 4)	The Company	Beneficial owner and through a controlled corporation	13,190,019(L)	2.58%
Chao Guowei, Charles (Note 5)	The Company	Beneficial owner	997,019(L)	0.20%
Lee Kwan Hung (Note 5)	The Company	Beneficial owner	997,019(L)	0.20%
Liu Sai Keung, Thomas (Note 5)	The Company	Beneficial owner	917,019(L)	0.18%

Notes:

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

2. Liu Dejian is interested in 95.36% of the issued share capital of DJM Holding Ltd., which in turn is interested in 36.45% of the issued share capital of the Company.

Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 5.16% of the issued share capital of the Company.

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 36.45% and 3.73%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 2.89% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 48.23% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 share options and 1,400,000 share options of the Company to Liu Dejian and Liu Luyuan, respectively. On 22 July 2011, the Company granted 284,000 share options to each of Liu Dejian, Liu Luyuan and Zheng Hui.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of "NetDragon (Fujian)", which in turn is interested in 99.00% of the registered capital of Shanghai Tiankun Digital Technology Limited* (上海天坤數碼科技有限公司) ("NetDragon (Shanghai)"). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.18% of the issued share capital of the Company. Chen Hongzhan had been awarded 1,600,000 share options of the Company on 7 December 2009 and granted 284,000 share options of the Company on 22 July 2011. Chen Hongzhan is deemed to be interested in 2.18% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited and his direct beneficial interest in the issued share capital of the Company.

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

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

* For identification purpose only

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

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	36.45%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%
IDG Group (Note 2)	The Company	Beneficial owner	78,333,320(L)	15.34%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	78,333,320(L)	15.34%
Zhou Quan (Note 2)	The Company	Through controlled corporations	73,490,095(L)	14.40%
Richmedia Holdings Limited (Note 3)	The Company	Beneficial owner	26,344,800(L)	5.16%
IDG Investors (Note 4)	91 Wireless	Beneficial owner	14,582,750(L)	10.39%
NetDragon (BVI)	91 Wireless	Beneficial owner	80,571,528(L)	57.41%

Notes:

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

2. The IDG Group 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 2.13%, 10.18%, 2.08% and 0.95% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

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

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

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

3. Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 5.16% of the issued share capital of the Company.

4. The IDG Investors is comprised of three limited partnerships, namely IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 8.00%, 1.64% and 0.75%, respectively, in 91 Wireless who are deemed to be acting in concert to acquire interests in 91 Wireless, and its respective controlling entities. The controlling structure of each of the above partnerships is stated in Note 2.

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

4. DISCLOSURE OF OTHER INTERESTS

(i) Interests in contract or arrangement

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as the Latest Practicable Date and which was significant in relation to the business of the Group.

(ii) Interests in assets

None of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Group were made up.

(iii) Interests in competing business

As at the Latest Practicable Date, none of the Directors and their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposed to enter, into a service contract with any member of the Group which is not expiring or may not be terminated by the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

Set out below are the contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date which were or might be material:

(a) a note purchase agreement dated 14 September 2011 and entered into among (i) 91 Limited; and (ii) IDG-Accel China Growth Fund L.P.; (iii) IDG-Accel China Growth Fund-A L.P. and (iv) IDG-Accel China Investors L.P. whereby 91 Limited agreed to issue, and the IDG Investors agreed to purchase convertible promissory note in the aggregated amount of US$5,000,000;

(b) a series B preferred share purchase agreement dated 9 December 2011 and entered into among (i) 91 Limited; (ii) Talent Zone Holdings Limited; (iii) 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.); (iv) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.); (v) Vertex Asia Growth Ltd; (vi) IP Cathay II, L.P.; and (vii) DT Capital China Growth Fund, L.P., whereby 91 Limited agreed to issue, and Vertex Asia Growth Ltd, IP Cathay II, L.P. and DT Capital China Growth Fund, L.P. agreed to purchase from 91 Limited, a total of 16,025,000 Series B Preferred Shares at a total consideration of US$20,000,000;

(c) a trust deed dated 28 December 2011 and entered into between (i) 91 Limited and (ii) Bank of Communications Trustee Limited whereby 91 Limited established a trust for the benefit of the participants of the share award scheme and Bank of Communications Trustee Limited agreed to act as the first trustee of the trust;

(d) a subscription agreement dated 10 February 2012 and entered into between (i) 91 Limited; and (ii) NetDragon Websoft Inc. whereby 91 Limited agreed to issue, and NetDragon Websoft Inc. agreed to subscribe for, 2,403,750 Series B Preferred Shares at a total consideration of US $3,000,000;

(e) a subscription agreement dated 5 October 2012 and entered into between (i) 91 Limited; and (ii) Sino Coast Developments Limited whereby 91 Limited agreed to issue and Sino Coast Developments Limited agreed to subscribe for, 1,602,500 Series B Preferred Shares at a total consideration of US$2,000,000;

(f) a subscription agreement dated 9 January 2013 and entered into between (i) 91 Limited; and (ii) NetDragon Websoft Inc. whereby 91 Limited agreed to allot and NetDragon Websoft Inc. agreed to subscribe for 13,131,278 ordinary shares of 91 Limited at a total consideration of US$25,131,201;

(g) a series B preferred share purchase agreement dated 10 January 2013 and entered into among (i) 91 Wireless Websoft Limited; (ii) Talent Zone Holdings Limited; (iii) 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.); (iv) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.); (v) Pacific Century Diversified Limited; (vi) Grandwin Enterprises Limited; and (vii) Wong Ka Kit, whereby 91 Wireless Websoft Limited agreed to issue, and Pacific Century Diversified Limited, Grandwin Enterprises Limited and Wong Ka Kit, agreed to purchase from 91 Wireless Websoft Limited, a total of 7,016,778 Series B Preferred Shares at a consideration of US$17,500,000;

(h) the Merger Agreement;

(i) the ND Deed of Undertaking;

(j) an equity transfer agreement dated 14 August 2013 in respect of the equity interest of 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Ltd.) and entered into between (i) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.); (ii) 李明遠; and (iii) 梁志祥 at a consideration of RMB570,000,000;

(k) a supplemental equity transfer agreement dated 14 August 2013 in respect of the equity interest of 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Ltd.) and entered into between (i)李明遠; (ii) 梁志祥 and (iii) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.); and (iv) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Ltd.) at a consideration of RMB570,000,000;

(l) a supplemental server maintenance agreement dated 14 August 2013 and entered into between (i) 福建博動文化傳播有限公司 (Fujian BoDong Cultural and Communications Co., Ltd.); and (ii) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.);

(m) a supplemental server maintenance agreement dated 14 August 2013 and entered into between (i) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.); and (ii) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.);

(n) a supplemental promotion and cooperation framework agreement dated 14 August 2013 and entered into between (i) NetDragon Websoft Inc. (網龍網絡有限公司); and (ii) 91 Wireless Websoft Limited;

(o) a domain names license termination agreement dated 14 August 2013 and entered into among (i) 福建博瑞網絡科技有限公司(Fujian BoRui Websoft Technology Co., Ltd.) and (ii) 福建網龍計算機網絡信息技術有限公司(Fujian NetDragon Websoft Co., Ltd.), pursuant to which 福建網龍計算機網絡信息技術有限公司(Fujian NetDragon Websoft Co., Ltd.) terminate the grant of domain names licence to 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.) for the use of "sj.91.com" and "mobile.91.com";

(p) a termination agreement dated 14 August 2013 and entered into between (i) 福州博遠無綫網絡科技有限公司(Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.); (ii) 福建博瑞網絡科技有限公司 (Fujian BoDong Cultural and Communications Co., Ltd.); and (iii) 福建網龍計算機網絡信息技術有限公司 (Fujian BoRui Websoft Technology Co, Ltd.), whereby all parties agree to terminate (i) the Cooperation Framework Agreement; (ii) the Exclusive-Acquisition Right Agreement; (iii) the Voting Right Proxy Agreement; (iv) the Equity Pledge Agreement; and (v) the Technical Consultancy Agreement;

(q) an artwork copyright transfer agreement dated 14 August 2013 and entered into between (i) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.); and (ii) 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.), whereby 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) shall transfer certain artwork copyrights to 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.) at a consideration of RMB1;

(r) a software transfer agreement dated 14 August 2013 and entered into between (i) 福建天晴數碼有限公司 (Fujian TQ Digital Inc.); and (ii) 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.), whereby 福建天晴數碼有限公司 (Fujian TQ Digital Inc.) shall transfer certain software copyrights to 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.) at a consideration of RMB1;

(s) a trademark transfer agreement dated 14 August 2013 and entered into between (i) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.); and (ii) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.), whereby 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) shall transfer certain trademarks to 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.) at a consideration of RMB1;

(t) a domain name transfer agreement dated 14 August 2013 and entered into between (i) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.); and (ii) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.), whereby 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) shall transfer certain domain names to 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.) at a consideration of RMB1;

(u) a patent transfer agreement dated 14 August 2013 and entered into between (i) 福建天晴數碼有限公司 (Fujian TQ Digital Inc.); and (ii) 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.), whereby福建天晴數碼有限公司 (Fujian TQ Digital Inc.) shall transfer certain patents to 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.) at a consideration of RMB1;

(v) an intellectual property license agreement dated 14 August 2013 and entered into between (i) 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.); (ii) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Ltd.); (iii) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.); and (iv) 福建天晴數碼有限公司 (Fujian TQ Digital Inc.) at a consideration of RMB1; and

(w) a termination agreement dated 14 August 2013 and entered into between (i) 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.); (ii) 福建天晴數碼有限公司 (Fujian TQ Digital Inc.); (iii) 福建天晴在綫互動科技有限公司 (Fujian TQ Online Interactive Inc.); (iv) 福州博遠無綫網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.) and (v) 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Ltd.), whereby all parties agree to terminate the Asset Purchase Agreement.

Save as disclosed above, there were no other contracts (not being contracts entered into in the ordinary course of business) being entered into by the members of the Group within the two years immediately preceding the date of this circular and ending on the Latest Practicable Date, which were or might be material.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and, so far as the Directors were aware, there was no litigation or claims of material importance pending or threatened by or against any member of the Group.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
Anglo Chinese	a corporation licensed to carry out Type 1, 4, 6 and 9 regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Ernst & Young	Certified Public Accountants

As at the Latest Practicable Date, none of the above experts had any direct or indirect shareholdings in any member of the Group, or any right to subscribe for or to nominate persons to subscribe for shares in any members of the Group, or any direct or indirect interests in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired or disposed of by or leased to the Company or any of their respective subsidiaries since 31 December 2012, the date to which the latest published audited financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters or reports and references to its name in the form and context in which they appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of the Company at Unit No. 2209, 22nd Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company valid as at the Latest Practicable Date;

(ii) the annual reports of the Company for each of the two years ended 31 December 2011 and 2012;

(iii) the letter from the Independent Board Committee, the text of which is set out on page 28 of this circular;

(iv) the letter of advice from Anglo Chinese, the text of which is set out on pages 29 to 63 of this circular;

(v) the accountants' report on the unaudited pro forma financial information of the Remaining Group as set out in Appendix II to this circular;

(vi) the accountants' report of the 91 Wireless Group for each of the two years ended 31 December 2012 and the three months ended 31 March 2013 as set out in Appendix III to this circular;

(vii) the material contracts referred to in the section headed "Material contracts" in this appendix;

(viii) the written consents of the experts referred to in the section headed "Experts and consents" in this appendix;

(ix) a copy of the circular of the Company which has been issued pursuant to the requirements set out in Chapter 14 of the Listing Rules since 31 December 2012 (being the date to which the latest published audited accounts of the Group were made up);

(x) the Share Option Scheme and the revised Share Option Scheme; and

(xi) this circular.

10. MISCELLANEOUS

(i) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is at Unit 2209, 22nd Floor, Shun Tak Centre, West Tower, 200 Connaught Road Central, Hong Kong.

(ii) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at 26th Floor of Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(iii) The company secretary of the Company is Ms. Tam Hon Shan, Celia, who is a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

(iv) In the event of any inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

The amendments proposed to be made to the Share Option Scheme are set out in this appendix. For ease of reference, the text of the relevant provisions of the Share Option Scheme are reproduced with proposed additions underlined. Unless the context requires otherwise, capitalized terms used in this appendix shall have the same meanings as those defined in the revised Share Option Scheme. A copy of the revised Share Option Scheme is available for inspection, as referred to on page 191 of this circular.

7. EXERCISE OF OPTIONS

Existing provision		**Proposed revised provision**	
7.3(a)	in the event of the Grantee ceasing to be an Eligible Participant for any reason other than on his death, ill-health, injury, disability or the termination of his relationship with the Company and/or any of the Subsidiaries on one or more of the grounds specified in paragraph 8(g), the Option (to the extent not already exercised) shall lapse on the date of such cessation (which date shall be, in relation to a Grantee who is an Eligible Participant by reason of his employment with the Company or any of the Subsidiaries, the last actual working day with the Company or the relevant Subsidiary whether salary is paid in lieu of notice or not);	7.3(a)	in the event of the Grantee ceasing to be an Eligible Participant for any reason other than on his death, ill-health, injury, disability or the termination of his relationship with the Company and/or any of the Subsidiaries on one or more of the grounds specified in paragraph 8(g), the Option (to the extent not already exercised) shall lapse on the date of such cessation (which date shall be, in relation to a Grantee who is an Eligible Participant by reason of his employment with the Company or any of the Subsidiaries, the last actual working day with the Company or the relevant Subsidiary whether salary is paid in lieu of notice or not) provided that in any such case the Directors in their absolute discretion may otherwise determine subject to such conditions or limitations as the Directors may decide;

Existing provision		Proposed revised provision	
7.3(b)	in the case of the Grantee ceasing to be an Eligible Participant by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of the Subsidiaries under paragraph 8(g) has occurred, the Grantee or the Personal Representative(s) of the Grantee shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Option in full (to the extent not already exercised);	7.3(b)	in the case of the Grantee ceasing to be an Eligible Participant by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of the Subsidiaries under paragraph 8(g) has occurred, the Grantee or the Personal Representative(s) of the Grantee shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Option in full (to the extent not already exercised) provided that in any such case the Directors in their absolute discretion may otherwise determine subject to such conditions or limitations as the Directors may decide;

The proposed additions to the provision is inserted such that the Board shall retain a discretion to make the final and conclusive decision over the share options of the Company that may be vested.

NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of NetDragon Websoft Inc. (the "**Company**") will be held at Unicorn and Phoenix Rooms, Basement Two, The Charterhouse Causeway Bay, 209-219 Wanchai Road, Wanchai, Hong Kong, on Friday, 27 September 2013 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT:**

(a) (i) the agreement and the plan of merger dated 14 August 2013 (the "**Merger Agreement**", a copy of which has been produced to the EGM marked "A" and initialed by the Chairman of the meeting for the purpose of identification) among 91 Wireless Websoft Limited ("**91 Wireless**"), an indirect non wholly-owned subsidiary and a connected person of the Company, Baidu (Hong Kong) Limited ("**Baidu HK**") and Baidu (Hong Kong) Sub Limited ("**Merger Sub**") be and is hereby approved, confirmed and ratified, pursuant to which Merger Sub will merge with and into 91 Wireless at the effective time as set out in the Plan of Merger (as defined hereinafter), with 91 Wireless surviving the Merger (as defined hereinafter) and becoming the wholly owned subsidiary of Baidu HK, at an aggregate merger consideration in the amount of US$1,847.94 million (the "**Merger Consideration**"), and subject to the Merger becoming effective, each eligible shareholder of 91 Wireless will be entitled to receive the aggregate Merger Consideration based on their respective shareholdings in 91 Wireless at the per share merger consideration of US$13.168 per share of 91 Wireless; and (ii) the transactions contemplated therein be and are hereby approved and confirmed;

(b) the plan of merger contained in Annex A of the Merger Agreement (the "**Plan of Merger**") to be entered into on the date of closing of the Merger Agreement by Merger Sub and 91 Wireless be and is hereby approved and confirmed;

(c) subject to the terms and conditions of the Merger Agreement, the merger of Merger Sub into 91 Wireless (the "**Merger**") be and is hereby approved and confirmed; and

(d) the deed of undertaking dated 14 August 2013 (the "**ND Deed of Undertaking**", a copy of which has been produced to the EGM marked "B" and initialed by the Chairman of the meeting for the purpose of identification) by the Company and NetDragon Websoft Inc. ("**NetDragon BVI**"), in favour of Baidu HK and Merger Sub, be and is hereby approved, confirmed and ratified, and the performance by the Company of all the transactions contemplated thereunder be and are hereby approved and confirmed;

(e) any one director of the Company (the "**Director**") be and is hereby authorised to do all such other acts and execute (where appropriate, as a deed) and deliver on behalf of the Company, and (where required) to affix the common seal of the Company to, all such other documents, instruments and agreements and to do any such acts or things as may be deemed by him in his absolute discretion as necessary or desirable, incidental to, ancillary to or in connection with or otherwise to give effect to the matters contemplated in the Merger and the transactions contemplated thereunder."

2. "**THAT**:

conditional on the completion of the Merger, the declaration of special dividend to the shareholders of the Company in the amount of approximately 50% of the net proceeds after tax from the Merger be and is hereby approved and confirmed."

3. "**THAT**:

(a) the proposed amendments to the share option scheme adopted by the Company on 12 June 2008 (the "**Share Option Scheme**", a copy of which has been produced to the EGM marked "C" and initialled by the Chairman of the meeting for the purpose of identification), be and are hereby approved and confirmed; and

(b) any one Director be and is hereby authorised to do all such other acts or things and to execute and enter into all documents and arrangements as may be necessary or expedient for the purpose of, in connection with, the implementation of the amendments of the Share Option Scheme."

Capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 11 September 2013, unless the context requires otherwise.

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

Hong Kong, 11 September 2013

Notes:

(1) A member of the Company entitled to attend and vote at the extraordinary general meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must attend the extraordinary general meeting to represent the member.

(2) In order to be valid, the form of proxy must be deposited with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with any power of attorney or other authority, under which it is signed, or a certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.

(3) In the case of joint holders of any shares in the Company, any one of such joint holders may vote at the extraordinary general meeting, either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.

(4) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.

(5) Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

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