NetDragon Websoft Inc.
網龍網絡有限公司

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

The board (the "Board") of directors (the "Director(s)") of NetDragon Websoft Inc. (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

RESULTS

The Group's audited operating profit for the year ended 31 December 2013 was approximately RMB202.8 million, representing a decrease of approximately 38.8% compared with that of the year ended 31 December 2012. Profit attributable to the owners of the Company for the year ended 31 December 2013 was approximately RMB6,140.8 million, representing an increase of approximately 15,574.8% compared with that of the year ended 31 December 2012. Basic and diluted earnings per share for the year ended 31 December 2013 were approximately RMB1,213.44 cents and RMB1,181.10 cents, respectively.

DIVIDENDS

The Board has recommended the payment of a final dividend of HKD0.20 per share for the year ended 31 December 2013 (year ended 31 December 2012: HKD0.20 per share), subject to the approval of the shareholders at the forthcoming annual general meeting (the "AGM") of the Company to be held on Friday, 23 May 2014. Such proposed dividends if approved by the shareholders at the AGM, will be paid on or before Friday, 13 June 2014 to shareholders whose names appear on the register of members of the Company on Friday, 30 May 2014.

RESULTS

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2013 together with the comparative figures in 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
			(Restated)
	NOTES	***RMB'000***	*RMB'000*
Continuing operations			
Revenue	4	**884,518**	825,744
Cost of revenue		**(81,426)**	(54,404)
Gross profit		**803,092**	771,340
Other income and gains	4	**44,980**	48,909
Selling and marketing expenses		**(106,200)**	(113,555)
Administrative expenses		**(366,143)**	(206,137)
Development costs		**(162,857)**	(146,208)
Other expenses		**(10,046)**	(22,249)
Share of losses of associates		**(16)**	(544)
Operating profit		**202,810**	331,556
Interest income on pledged bank deposit		**4,883**	4,849
Exchange gain on pledged bank deposit and secured bank borrowing		**4,593**	10,807
Net loss on other financial liability		**(5,481)**	(10,679)
Gain on disposal of available-for-sale investment		**5,761**	—
Net gain (loss) on held for trading investments		**8,756**	(61)
Finance costs	5	**(4,651)**	(4,276)
Profit before taxation		**216,671**	332,196
Taxation	7	**(50,264)**	(50,356)
Profit for the year from continuing operations	9	**166,407**	281,840
Discontinued operations			
Profit (loss) for the year from discontinued operations	8	**6,056,041**	(242,879)
Profit for the year		**6,222,448**	38,961
Other comprehensive expense for the year, net of income tax:			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss		**(1,130)**	(64)
Total comprehensive income for the year		**6,221,318**	38,897

	NOTE	2013 RMB'000	2012 (Restated) RMB'000
Profit (loss) for the year attributable to:			
- Owners of the Company		**6,140,776**	39,176
- Non-controlling interests		**81,672**	(215)
		6,222,448	38,961
Profit (loss) for the year attributable to owners of the Company:			
- from continuing operations		**164,352**	282,029
- from discontinued operations		**5,976,424**	(242,853)
Profit for the year attributable to owners of the Company		**6,140,776**	39,176
Profit (loss) for the year attributable to non-controlling interests:			
- from continuing operations		**2,055**	(189)
- from discontinued operations		**79,617**	(26)
Profit (loss) for the year attributable to non-controlling interests		**81,672**	(215)
Total comprehensive income (expense) attributable to:			
- Owners of the Company		**6,139,646**	39,112
- Non-controlling interests		**81,672**	(215)
		6,221,318	38,897
		RMB cents	*RMB cents*
Earnings per share			
From continuing and discontinued operations	11		
- Basic		**1,213.44**	7.71
- Diluted		**1,181.10**	7.60
From continuing operations			
- Basic		**32.48**	55.50
- Diluted		**31.75**	54.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment		**532,684**	345,415
Prepaid lease payments		**185,819**	139,678
Investment property		**15,725**	16,217
Intangible assets		**—**	2,626
Interests in associates		**1,299**	11,793
Interest in a joint venture		**—**	18,015
Available-for-sale investments	12	**5,000**	5,000
Loan receivables		**16,041**	9,969
Deposits made for acquisition of property, plant and equipment		**16,769**	—
Other receivable		**60,969**	—
Goodwill		**12,534**	12,534
Deferred tax assets	13	**54**	1,586
		846,894	562,833
Current assets			
Prepaid lease payments		**2,583**	2,902
Loan receivables		**713**	3,143
Trade receivables	14	**41,718**	61,427
Other receivables, prepayments and deposits		**69,770**	72,101
Held for trading investments		**20,735**	4,939
Amounts due from related companies		**4,564**	3,637
Amount due from a joint venture		**—**	3,060
Pledged bank deposit		**107,368**	194,405
Bank deposits		**3,051,289**	394,081
Bank balances and cash		**1,304,355**	1,142,825
		4,603,095	1,882,520

	NOTES	2013 RMB'000	2012 RMB'000
Current liabilities			
Trade and other payables	15	**152,837**	222,137
Deferred income		**26,553**	24,778
Amount due to a related company		**—**	121
Amount due to an associate		**—**	5,600
Secured bank borrowing	16	**104,672**	183,595
Other financial liability		**3,122**	10,679
Income tax payable		**539,927**	66,355
		827,111	513,265
Net current assets		**3,775,984**	1,369,255
Total assets less current liabilities		**4,622,878**	1,932,088
Non-current liabilities			
Redeemable convertible preferred shares	17	**—**	195,115
Conversion option derivative liability	17	**—**	314,829
Deferred tax liabilities	13	**—**	6,141
		—	516,085
Net assets		**4,622,878**	1,416,003
Capital and reserves			
Share capital		**37,664**	37,532
Share premium and reserves		**4,577,478**	1,356,317
Equity attributable to owners of the Company		**4,615,142**	1,393,849
Non-controlling interests		**7,736**	22,154
		4,622,878	1,416,003

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to owners of the Company														
	Share capital *RMB'000*	Share premium *RMB'000*	Capital redemption reserve *RMB'000*	Other reserve *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Dividend reserve *RMB'000*	Revaluation reserve *RMB'000*	Treasury share reserve *RMB'000*	Employee share-based compensation reserve *RMB'000*	Translation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2012	38,226	1,113,005	3,001	2,209	9,946	140,883	50,062	673	(7,552)	19,054	(58,115)	187,960	1,499,352	(458)	1,498,894
Profit (loss) for the year	—	—	—	—	—	—	—	—	—	—	—	39,176	39,176	(215)	38,961
Other comprehensive expense for the year	—	—	—	—	—	—	—	—	—	—	(64)	—	(64)	—	(64)
Total comprehensive (expenses) income for the year	—	—	—	—	—	—	—	—	—	—	(64)	39,176	39,112	(215)	38,897
Issue of shares by subsidiaries and contribution from non-controlling shareholders	—	—	—	—	99	—	—	—	—	—	—	—	99	671	770
Repurchase and cancellation of shares	(716)	(45,057)	716	—	—	—	—	—	—	—	—	(716)	(45,773)	—	(45,773)
Shares issued upon exercise of share options	22	1,896	—	—	—	—	—	—	—	(579)	—	—	1,339	—	1,339
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	12,709	—	—	12,709	—	12,709
Recognition of equity-settled share-based payments granted by a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	22,024	22,024
Final dividend for 2011 paid	—	—	—	—	—	—	(50,062)	—	—	—	—	—	(50,062)	—	(50,062)
Interim dividend for 2012 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(62,927)	(62,927)	—	(62,927)
Final dividend for 2012 proposed	—	—	—	—	—	—	81,947	—	—	—	—	(81,947)	—	—	—
Partial disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	132	132
Awarded shares vested to employees	—	—	—	—	—	—	—	—	327	(198)	—	(129)	—	—	—
Transfers	—	—	—	—	—	32,012	—	—	—	—	—	(32,012)	—	—	—
	(694)	(43,161)	716	—	99	32,012	31,885	—	327	11,932	—	(177,731)	(144,615)	22,827	(121,788)
At 31 December 2012	37,532	1,069,844	3,717	2,209	10,045	172,895	81,947	673	(7,225)	30,986	(58,179)	49,405	1,393,849	22,154	1,416,003
Profit for the year	—	—	—	—	—	—	—	—	—	—	—	6,140,776	6,140,776	81,672	6,222,448
Other comprehensive expense for the year	—	—	—	—	—	—	—	—	—	—	(1,130)	—	(1,130)	—	(1,130)
Total comprehensive (expense) income for the year	—	—	—	—	—	—	—	—	—	—	(1,130)	6,140,776	6,139,646	81,672	6,221,318
Repurchase and cancellation of shares	(422)	(82,598)	422	—	—	—	—	—	—	—	—	(422)	(83,020)	—	(83,020)
Shares issued upon exercise of share options	554	49,234	—	—	—	—	—	—	—	(16,922)	—	—	32,866	—	32,866
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	18,559	—	—	18,559	—	18,559
Recognition of equity-settled share-based payments granted by subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	144,254	144,254
Conversion of redeemable convertible preferred shares	—	—	—	408,261	—	—	—	—	—	—	—	—	408,261	188,614	596,875
Contributions from non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	4,484	4,484
Final dividend for 2012 paid	—	—	—	—	—	—	(81,947)	—	—	—	—	(391)	(82,338)	—	(82,338)
Interim dividend for 2013 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(81,329)	(81,329)	—	(81,329)
Special dividend declared and paid	—	—	—	—	—	—	—	—	—	—	—	(3,130,303)	(3,130,303)	—	(3,130,303)
Final dividend for 2013 proposed	—	—	—	—	—	—	79,977	—	—	—	—	(79,977)	—	—	—
Dividend paid to non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	(136,316)	(136,316)
Acquisition of additional equity interests from non-controlling shareholders of a subsidiary	—	—	—	(1,049)	—	—	—	—	—	—	—	—	(1,049)	1,049	—
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,445	(2,846)	—	1,401	—	—	—
Transfer of reserve upon disposal of subsidiaries	—	—	—	(410,470)	—	(9,391)	—	—	—	—	—	419,861	—	(298,175)	(298,175)
Transfer of reserve upon deregistration of a subsidiary	—	—	—	1,049	—	—	—	—	—	—	—	(1,049)	—	—	—
Transfers	—	—	—	—	—	39,381	—	—	—	—	—	(39,381)	—	—	—
	132	(33,364)	422	(2,209)	—	29,990	(1,970)	—	1,445	(1,209)	—	(2,911,590)	(2,918,353)	(96,090)	(3,014,443)
At 31 December 2013	37,664	1,036,480	4,139	—	10,045	202,885	79,977	673	(5,780)	29,777	(59,309)	3,278,591	4,615,142	7,736	4,622,878

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	**2013** *RMB'000*	2012 *RMB'000*
NET CASH FROM OPERATING ACTIVITIES		**720,958**	393,574
INVESTING ACTIVITIES			
Interest received		**25,722**	35,374
Acquisition of a subsidiary		**—**	2,556
Acquisition of an associate		**—**	(500)
Investment in a joint venture		**—**	(19,406)
Purchase of held for trading investments		**—**	(5,000)
Acquisitions of available-for-sale investments		**(6,218)**	(1,000)
Proceeds from disposal of property, plant and equipment		**3,005**	80
Proceeds from disposal of prepaid lease payments		**13,074**	—
Proceeds received from disposal of subsidiaries	18	**5,614,169**	—
Proceeds from disposal of an associate		**175**	—
Proceeds from return of capital from an associate		**5,600**	—
Proceeds from disposal of held for trading investments		**5,168**	—
Deposits paid for acquisition of property, plant and equipment		**(16,769)**	—
Placement of bank deposits		**(3,071,754)**	(404,081)
Placement of pledged bank deposit		**(108,268)**	(194,405)
Withdrawal of bank deposits		**389,987**	50,000
Withdrawal of pledged bank deposit		**182,149**	—
Advance of loan receivables		**(7,170)**	(9,682)
Repayment of loan receivables		**3,421**	3,970
Repayment of (advanced to) a joint venture		**3,405**	(3,060)
Purchase of prepaid lease payments		**(60,267)**	(36,908)
Purchase of property, plant and equipment		**(245,455)**	(137,358)
Purchase of intangible assets		**—**	(4,733)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**2,729,974**	(724,153)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has applied the following new and revised HKFRSs issued by the HKICPA for the first time in current year.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures-Offsetting Financial Assets and Financial Liabilities

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

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

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

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

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

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

HKFRS 11 Joint Arrangement

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

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

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

Impact of the application of HKFRS 12

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

HKFRS 13 *Fair Value Measurement*

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

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements. HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]

Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HK(IFRIC) - Int 21	Levies[1]

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

2 Effective for annual periods beginning on or after 1 July 2014

3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

Annual Improvements to HKFRSs 2010-2012 Cycle

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

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

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

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

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

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

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

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

Annual Improvements to HKFRSs 2011-2013 Cycle

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

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

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

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

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

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

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

HKFRS 9 ***Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

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

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

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

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

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

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

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

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

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

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

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*

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

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

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

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

Note: Government grants were received from the government of the People's Republic of China (the "PRC") mainly for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

5. FINANCE COSTS

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

6. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The Group has only one operating segment (i.e. online game development and operation and marketing of those online games) from its continuing operations.

During the year, the Group's mobile Internet business segment has been classified as discontinued operations upon the disposal of 91 Wireless Websoft Limited and its subsidiaries ("91 Group"), which is described in more details in note 18. Accordingly, the comparative information has been represented to present the results of the mobile Internet business as discontinued operations to conform with the current year's presentation.

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

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

The accounting policies of the operating segment are the same as the Group's accounting policies. Segment profit represents the profit earned by the segment whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of losses of associates, net loss on other financial liability, income tax expenses, and unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

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

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

Geographical information

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

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

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

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

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

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

7. TAXATION

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

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

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

8. DISCONTINUED OPERATIONS

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

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

	2013 *RMB'000*	2012 *RMB'000*
Profit (loss) for the year from discontinued operations		
Attributable to:		
- Owners of the Company	**164,461**	(242,853)
- Non-controlling interests	**79,617**	(26)
	244,078	(242,879)
Gain on disposal of subsidiaries, net of related income tax (Note 18)	**5,811,963**	—
Profit (loss) for the year	**6,056,041**	(242,879)

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

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

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

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

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

The carrying amounts of the assets and liabilities of the subsidiaries comprising the discontinued operations at the date of the Disposal are disclosed in note 18.

9. PROFIT FOR THE YEAR

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

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

From continuing and discontinued operations

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

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

	Number of shares	
	2013	2012
	'000	*'000*
Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**506,063**	508,196
Effect of dilutive potential shares from the Company's share option scheme	**11,656**	7,044
Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**517,719**	515,240

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

From continuing operations

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

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

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

From discontinued operations

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

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

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

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

12. AVAILABLE-FOR-SALE INVESTMENTS

	2013	2012
	RMB'000	*RMB'000*
Unlisted equity securities in the PRC		
- 福建楊振華851生物科技股份有限公司		
(Fujian Yangzhenhua 851 Bio-Engineering Inc.) (*Note* a)	**4,000**	4,000
- 青島信通物聯網絡有限公司 (*Note* b)	**1,000**	1,000
	5,000	5,000

Notes:

a. Being unlisted equity investment representing 9.5% equity interest in 福建楊振華851生物科技股份有限公司 (Fujian Yangzhenhua 851 Bio-Engineering Inc.) which was established in the PRC. Mr. Liu Dejian and Mr. Zheng Hui, directors of the Company, are directors of the entity.

b. The entity is a private entity established in the PRC. During 2012, the Group has invested RMB1,000,000 in this entity which represents 10% of equity interest in this entity.

The available-for-sale investments are stated at cost less impairment at the end of the reporting period because the directors are of the opinion that its fair value cannot be measured reliably.

13. DEFERRED TAXATION

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

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

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

	Undistributable profits of subsidiaries	**Development costs and accrued expenses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	—	54	54
(Charged) credited to profit or loss	(6,141)	1,532	(4,609)
At 31 December 2012	(6,141)	1,586	(4,555)
(Charged) credited to profit or loss	**(21,554)**	**6,836**	**(14,718)**
Eliminated on disposal of subsidiaries (Note 18)	**27,695**	**(8,368)**	**19,327**
At 31 December 2013	**—**	**54**	**54**

At the end of the reporting period, the Group has temporary differences associated with undistributed earnings of PRC subsidiaries of RMB1,093,871,000 (2012: RMB206,394,000). Deferred tax liabilities has been recognised in respect of undistributed earnings of RMB215,537,000 (2012: RMB68,238,000). However, upon the Disposal as detailed in note 8, undistributed earnings of PRC subsidiaries of RMB215,537,000 was reversed. No deferred tax liability has been recognised for the remaining undistributed earnings of RMB1,093,871,000 (2012: RMB138,156,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Group also has not recognised deferred tax assets arising from tax losses amounting to approximately RMB19,559,000 (2012: RMB94,059,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses are losses of approximately RMB19,559,000 (2012: RMB93,297,000) that will expire within five years from the end of the reporting period.

14. TRADE RECEIVABLES

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

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

Before accepting any new agent/customer, the Group uses an internal credit assessment policy to assess the potential agent/customer's credit quality and define credit limits by agent/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB9,052,000 (2012: RMB9,088,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts

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

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

15. TRADE AND OTHER PAYABLES

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

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

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

16. SECURED BANK BORROWING

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

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

17. REDEEMABLE CONVERTIBLE PREFERRED SHARES

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

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

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

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

Conversion

Both series A and series B redeemable convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the redeemable convertible preferred shares and the 5th anniversary of the issue date of series A redeemable convertible preferred shares and 4th anniversary of the issue date of series B redeemable convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each redeemable convertible preferred share. The initial conversion ratio of 1:1 is subject to adjustments, in the event of share splits, share combinations, share dividends or distribution, other dividends, recapitalisation and similar events.

Series A redeemable convertible preferred shares shall be automatically converted into ordinary shares upon the occurrence of a public offering of the shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD150,000,000 and the aggregate net proceeds to the subsidiary of the Company are in excess of USD50,000,000. Series B redeemable convertible preferred shares shall be automatically converted into ordinary shares upon the occurrence of a public offering of the shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD500,000,000 and the aggregate net proceeds to the subsidiary of the Company are in excess of USD150,000,000.

Dividends

The holders of outstanding series A redeemable convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of any assets at the time legally available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares in such calendar year. The right to receive dividends on series A redeemable convertible preferred shares shall not be cumulative, and no right to such dividends shall accrue to holders of redeemable convertible preferred shares by reason of the fact that dividends on said shares are not declared or paid in any calendar year.

The holders of outstanding series B redeemable convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of any assets at the time legally available therefor, in preference and priority to any declaration or payment of any distribution on series A redeemable convertible preferred shares and ordinary shares in such calendar year. The right to receive dividends on series B redeemable convertible preferred shares shall not be cumulative, and no right to such dividends shall accrue to holders of series B redeemable convertible preferred shares by reason of the fact that dividends on said shares are not declared or paid in any calendar year.

Redemption

At any time after the 5th but not later than the 10th anniversary of the date on which the series A redeemable convertible preferred shares was issued, by a written request signed by holders of at least two-thirds of the series A redeemable convertible preferred shares, all outstanding series A redeemable convertible preferred shares shall be redeemed at original issue price per redeemable convertible preferred share of USD0.26 plus cumulative rate of return of 5% per annum, and any declared but unpaid dividends on such series A redeemable convertible preferred shares.

At any time after the 4th anniversary of the original issue date of the series B redeemable convertible preferred shares of a written request signed by holders of more than two-thirds of the series B redeemable convertible preferred shares, all outstanding series B redeemable convertible preferred shares shall be redeemed at original issue price per redeemable convertible preferred shares of approximately USD1.248 plus cumulative rate of return of 12% per annum, and any declared but unpaid dividends on such series B redeemable convertible preferred shares.

Liquidation

The holders of the series A redeemable convertible preferred shares have preference over holders of ordinary shares with respect to payment of dividends and distribution of assets or surplus funds upon voluntary or involuntary liquidation of the subsidiary of the Company. The holders of the series A redeemable convertible preferred shares shall be entitled to receive the original issue price of USD0.26 per series A redeemable convertible preferred shares plus 5% per annum cumulative rate of return upon liquidation.

The holders of the series B redeemable convertible preferred shares have preference over holders of series A redeemable convertible preferred shares and ordinary shares with respect to payment of dividends and distribution of assets or surplus funds upon voluntary or involuntary liquidation of the subsidiary of the Company. The holders of the series B redeemable convertible preferred shares shall be entitled to receive the original issue price of approximately USD1.248 per series B redeemable convertible preferred share plus 12% per annum cumulative rate of return upon liquidation.

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

The movements of the liability component and conversion option and other embedded derivatives of the series A and series B redeemable convertible preferred shares for the year are set out as below:

	Liability component *RMB'000*	**Conversion option and other derivatives** *RMB'000*
At 1 January 2012	131,675	39,932
Exchange realignment	(563)	(1,254)
Issue of redeemable convertible preferred shares	11,223	2,172
Converted from promissory notes	29,262	2,234
Interest charge	23,518	—
Loss arising on changes of fair value	—	271,745
At 31 December 2012 and 1 January 2013	195,115	314,829
Exchange realignment	(512)	(616)
Issue of redeemable convertible preferred shares	99,990	9,898
Interest charge	10,875	—
Gain arising on changes of fair value	—	(32,704)
Converted to ordinary shares	(305,468)	(291,407)
At 31 December 2013	—	—

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

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

Series A redeemable convertible preferred shares

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

Series B redeemable convertible preferred shares

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

Notes:

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

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

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

18. DISPOSAL OF SUBSIDIARIES

As described in note 8, NetDragon BVI and Baidu entered into S&P Agreement pursuant to which NetDragon BVI has conditionally agreed to sell, and Baidu has conditionally agreed to purchase the entire equity interest of 91 Group. Under such agreement, the Group shall be entitled to receive an aggregate consideration of USD1.09 billion (equivalent to approximately RMB6,704 million) before a special dividend of USD29.89 million (equivalent to approximately RMB184 million). 91 Group carries out all of the Group's mobile Internet business which is classified as discontinued operations for the Group as a result of the Disposal. The net assets of 91 Group at the date of the Disposal were as follows:

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

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

The impact of disposed subsidiaries on the Group's results and cash flows in the current year is disclosed in note 8.

19. EVENT AFTER THE REPORTING PERIOD

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

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

OPERATION INFORMATION

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

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

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

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

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

FINANCIAL PERFORMANCE HIGHLIGHTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

Revenue

Continuing operations

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

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

	Year ended 31 December			
	2013		2012	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**781,442**	**88.3**	717,048	86.8
Overseas	**103,076**	**11.7**	108,696	13.2
	884,518	**100.0**	825,744	100.0

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The online game revenue derived from the PRC for the year ended 31 December 2013 was approximately RMB781.4 million, representing an increase of approximately 9.0% over the year ended 31 December 2012.

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

Discontinued operations

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

Fourth Quarter of 2013

Continuing operations

Revenue

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

Cost of revenue

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

Other income and gains

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

Selling and marketing expenses

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

Administrative expenses

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

Development costs

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

Other expenses

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

Net loss on other financial liability

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

Finance costs

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

(Loss) profit for the period from continuing operations

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

Discontinued operations

Profit for the period from discontinued operations

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

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

Continuing and discontinued operations

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2013 Compared to Third Quarter of 2013

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

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

FINANCIAL REVIEW

Continuing operations

Revenue

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

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

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

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

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

Cost of revenue

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

Gross profit

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

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

Other income and gains

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

Selling and marketing expenses

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

Administrative expenses

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

Development costs

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

Other expenses

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

Net loss on other financial liability

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

Finance costs

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

Taxation

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

Continuing and discontinued operations

Profit for the period attributable to the owners of the Company

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

Fourth Quarter of 2013 Compared to Fourth Quarter of 2012

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

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

FINANCIAL REVIEW

Continuing operations

Revenue

Our online game revenue for the three months ended 31 December 2013 was approximately RMB229.0 million, keeping at a steady level as compared to approximately RMB229.1 million for the three months ended 31 December 2012.

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

	Three months ended 31 December			
	2013		2012	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**205,178**	**89.6**	202,520	88.4
Overseas	**23,823**	**10.4**	26,584	11.6
	229,001	**100.0**	229,104	100.0

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

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

Cost of revenue

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

Gross profit

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

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

Other income and gains

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

Selling and marketing expenses

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

Administrative expenses

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

Development costs

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

Other expenses

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

Net loss on other financial liability

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

Finance costs

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

Taxation

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

Continuing and discontinued operations

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

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

Non-GAAP Financial Measures

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2013, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB4,463.0 million (31 December 2012: RMB1,731.3 million), out of which approximately RMB107.4 million (31 December 2012: RMB194.4 million) has been pledged to bank to secure bank borrowing. The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.02 (31 December 2012: 0.13). As at 31 December 2013, total bank borrowing of the Group amounted to approximately RMB104.7 million (31 December 2012: RMB183.6 million) was fixed rate loan.

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

STAFF INFORMATION

For the year under review, the breakdown of the number of employees from continuing operations of the Group is set out below:

	At 31 December 2013	At 30 September 2013	At 31 December 2012
Research and development	**1,230**	1,327	1,319
Selling and marketing	**520**	504	581
Accounting, finance and general administration	**518**	570	504
Total	**2,268**	2,401	2,404

As at 31 December 2013, we had a total of 2,268 employees (30 September 2013 and 31 December 2012: 2,401 and 2,404, respectively), 743 of which were online game developers of the research and development department, represented approximately 32.8% of the total number of staff.

BUSINESS REVIEW

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

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

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

Development of existing MMORPG

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

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

During the year under review, the Chinese expansion pack of Eudemons Online (魔域), "Love in a Fallen City"* (傾城之戀), officially started its beta testing in April 2013, and the introduction of "Marriage and Love System"* (婚戀系統) further enhanced the emotional connections between players, and improved various key indicators of the games. Moreover, "Gods Recovery"* (諸神復蘇), another expansion pack of Eudemons Online which began beta testing in October 2013, gained wide popularity among players and showed that with constant upgrade to its content, this

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typical game has great appeal to players. Other major games of the Group also released their latest expansion packs in response to the demand of players. The expansion pack of Zero Online (機戰) "Advent"* (救世主) was released in May 2013; the expansion pack of Way of the Five (開心) "Catastrophe in Fairland"* (仙界浩劫) was released in July 2013 and the expansion pack of Tou Ming Zhuang Online (投名狀Online) "Ce Ma Tian Xia"* (策馬天下) was released in August 2013. The successive releases of the above new expansion packs had lengthened the lifespan of the games.

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

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

Mobile Internet Business

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

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

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

After the disposal of 91 Wireless, the Group shifted the strategic focus of its mobile Internet business to the development and operation of mobile Internet games, and achieved significant progress during the year under review. Several typical mobile games were launched, such as Crazy Tribe* (瘋狂部落), a mobile game based on the background of primitive society with lovely and artistic style; Evil Spirits* (妖界), an anime style cultivated strategic game integrating leisure strategy, instantaneous fighting and social community with Chinese myths as background; COS* (英魂之刃), the first 3D genex MOBA type of online game developed by the Company’s self-developed S3 engines and integrating various themes such as science fiction, fantasy and mystique themes; and The Pirate (大海盜), a role play mobile game. Besides, many mobile game products were opened for internal and beta testing, including the role play game, Micro Western Odyssey* (微西遊); the strategic role play game, Most Runescape* (最江湖); the action-based role play game, Age of Egmont* (獵龍戰記); the 2.5D role play game, Celestial Saga* (戰蒼穹), which is developed by C3 game engine and the Fatal Fighter* (全球快打), a side scrolling fighting game with alien theme. We believe these games can enable sufficient product reserve for the continuous launch of masterpiece games in the Group.

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

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

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

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

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

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

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

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

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

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

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

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

The Merger Agreement

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

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

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

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

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

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

Expansion of business lines

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

Online education project

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

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

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

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

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

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

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

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

Enhancement of R&D capabilities

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

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PROSPECTS AND OUTLOOK

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

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

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

MMORPGS

Tiger Knight*（虎豹騎）

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

Mobile Internet Games

Micro Western Odyssey* (微西遊)

This is a new generation strategic game which integrates the features of the two categories of card games and horizontal-version round-based games, and combines the Diablo style with the brand-new Journey to the West Story. Since top designers in the industry were invited to participate in the artistic production and renowned fan

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fiction writers were asked to write the story, it will interpret the most stylish and unique story of Journey to the West for the users. Meanwhile, marvelous character design, changing scenes and dazzling playing skills will show players unprecedented aesthetics which cannot be seen in strategy card games. This game is scheduled for internal testing in April 2014.

Most Runescape* (最江湖)

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

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

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

Eudemons Online Pocket Version* (魔域口袋版)

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

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Celestial Saga* (戰蒼穹)

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

Online Education Project

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

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

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

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

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

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Conclusion

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

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

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

Other Events

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

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

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

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through a controlled corporation	248,925,457(L)	48.94%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through a controlled corporation	250,076,457 (L)	49.17%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%

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 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui *(Note 2)*	The Company	Beneficial owner and through controlled corporations	248,605,457 (L)	48.88%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and beneficiary of a trust	13,190,019(L)	2.59%
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	1,315,019(L)	0.26%
Lee Kwan Hung *(Note 5)*	The Company	Beneficial owner	1,315,019(L)	0.26%
Liu Sai Keung, Thomas *(Note 5)*	The Company	Beneficial owner	1,235,019(L)	0.24%

Notes:

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

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

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

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

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

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

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

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

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

* *For identification purpose only*

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

So far as is known to the Directors, as at 31 December 2013, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

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

Notes:

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

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.14%, 10.22%, 2.09% and 0.95% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

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

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

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

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

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

SHARE OPTION SCHEME

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

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

Notes:

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

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

3. During the period under review, 3,573,000 share options were exercised by Directors of the Company.

SHARE AWARD SCHEME

The Company

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

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

On 31 December 2013, 1,269,603 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

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

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

91 Wireless

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

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

As at 30 September 2013, 9,615,000 awarded shares (among which 117,500 shares and 49,675 Shares were returned shares pursuant to the rules of the 91 Share Award Scheme and were re-granted on 31 December 2012 and 16 September 2013 respectively) were granted to a number of selected participants. The awarded shares, which were purchased at par value of USD0.0001 per share by the Trustee from Treasure New Limited, an indirect wholly owned subsidiary of the Company, will be transferred to the selected participants at nil consideration. Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) a confirmation from 91 Wireless that all vesting conditions having been fulfilled, the award shares will be transferred to the selected participants at nil consideration upon vesting.

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

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

As at 1 October 2013, each selected participant under the 91 Share Award Scheme ceased to hold any interest in 91 Wireless.

Best Assistant Education Online Limited ("Best Assistant")

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

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

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

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

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the year ended 31 December 2013.

FINAL DIVIDEND

At the Board meeting held on Thursday, 27 March 2014, it was proposed that a final dividend of HKD0.20 per share for the year ended 31 December 2013, amounting to approximately RMB79,977,000 be paid on or before Friday, 13 June 2014 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Friday, 30 May 2014. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming AGM to be held on Friday, 23 May 2014.

CLOSURE OF REGISTER OF MEMBERS

(a) **For determining the entitlement to attend and vote at the 2014 AGM**

The Company's register of members will be closed from Wednesday, 21 May 2014 to Friday, 23 May 2014, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the AGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited (the address is 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on or before 30 March 2014, and with effect from 31 March 2014, the address will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) by no later than 4:30 p.m. on Tuesday, 20 May 2014 for registration of the relevant transfer.

(b) **For determining the entitlement to the proposed final dividend**

The Board has recommended the payment of a final dividend of HKD0.20 per share for the year ended 31 December 2013 to shareholders whose names appear on the register of members of the Company on Friday, 30 May 2014 subject to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 30 May 2014 to Tuesday, 3 June 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited (the address is 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on or before 30 March 2014, and with effect from 31 March 2014, the address will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) for registration not later than 4:30 p.m. on Thursday, 29 May 2014.

PUBLICATION OF FINAL RESULTS AND 2013 ANNUAL REPORT

The final results announcement of the Company is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.nd.com.cn). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.nd.com.cn) in due course.

ANNUAL GENERAL MEETING

The 2014 AGM will be held on Friday, 23 May 2014. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2013 as set out in the results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the results announcement.

AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2013 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

Details of the shares repurchase are as follows:

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

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

Hong Kong, 27 March 2014

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