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**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 2014**

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 2014.

**RESULTS**

The Group’s audited operating profit for the year ended 31 December 2014 was approximately RMB252.0 million, representing an increase of approximately 24.3% compared with that of the year ended 31 December 2013. Profit attributable to the owners of the Company from continuing operations for the year ended 31 December 2014 was approximately RMB176.7 million, representing an increase of approximately 7.5% compared with that of the year ended 31 December 2013. Basic and diluted earnings per share for the year ended 31 December 2014 were approximately RMB34.77 cents and RMB34.22 cents, respectively.

**DIVIDENDS**

The Board has recommended the payment of a final dividend of HKD0.20 per share for the year ended 31 December 2014 (year ended 31 December 2013: 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 Thursday, 21 May 2015. Such proposed dividends if approved by the shareholders at the AGM, will be paid on or before Monday, 15 June 2015 to shareholders whose names appear on the register of members of the Company on Friday, 29 May 2015.

## RESULTS

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2014 together with the comparative figures in 2013 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

|   | <i>NOTES</i> | <b>2014</b><br><i>RMB'000</i> | 2013<br><i>RMB'000</i>  |
|---|--------------|-------------------------------|-------------------------|
| <b>Continuing operations</b>  |              |                               |                         |
| Revenue   | 4            | <b>962,817</b>                | 884,518                 |
| Cost of revenue   |              | <u>(102,844)</u>              | <u>(81,426)</u>         |
| Gross profit  |              | <b>859,973</b>                | 803,092                 |
| Other income and gains  | 4            | <b>157,101</b>                | 44,980                  |
| Selling and marketing expenses  |              | <b>(152,495)</b>              | (106,200)               |
| Administrative expenses   |              | <b>(326,934)</b>              | (366,143)               |
| Development costs   |              | <b>(249,260)</b>              | (162,857)               |
| Other expenses  |              | <b>(34,027)</b>               | (10,046)                |
| Share of losses of associates   |              | <u>(2,354)</u>                | <u>(16)</u>             |
| Operating profit  |              | <b>252,004</b>                | 202,810                 |
| Interest income on pledged bank deposits  |              | <b>2,794</b>                  | 4,883                   |
| Exchange (loss) gain on pledged bank deposits<br>and secured bank borrowings  |              | <b>(5,081)</b>                | 4,593                   |
| Net gain (loss) on derivative financial instrument  |              | <b>6,817</b>                  | (5,481)                 |
| Gain on disposal of available-for-sale investment   |              | <b>—</b>                      | 5,761                   |
| Net (loss) gain on held-for-trading investments   |              | <b>(17,304)</b>               | 8,756                   |
| Finance costs   | 5            | <u>(3,212)</u>                | <u>(4,651)</u>          |
| Profit before taxation  |              | <b>236,018</b>                | 216,671                 |
| Taxation  | 7            | <u>(64,197)</u>               | <u>(50,264)</u>         |
| Profit for the year from continuing operations  | 9            | <b>171,821</b>                | 166,407                 |
| <b>Discontinued operations</b>  |              |                               |                         |
| Profit for the year from discontinued operations  | 8            | <u>—</u>                      | <u>6,056,041</u>        |
| Profit for the year   |              | <b>171,821</b>                | 6,222,448               |
| Other comprehensive expense for the year, net of<br>income tax:   |              |                               |                         |
| Exchange differences arising on translation of<br>foreign operations that may be reclassified<br>subsequently to profit or loss |              | <u>(40)</u>                   | <u>(1,130)</u>          |
| Total comprehensive income for the year   |              | <u><b>171,781</b></u>         | <u><b>6,221,318</b></u> |

|   | <b>2014</b>           | 2013                    |
|---|-----------------------|-------------------------|
| <i>NOTE</i>   | <i>RMB'000</i>        | <i>RMB'000</i>          |
| Profit (loss) for the year attributable to:                           |                       |                         |
| - Owners of the Company   | <b>176,681</b>        | 6,140,776               |
| - Non-controlling interests   | <u>(4,860)</u>        | <u>81,672</u>           |
|   | <b><u>171,821</u></b> | <b><u>6,222,448</u></b> |
| Profit for the year attributable to owners of the Company:            |                       |                         |
| - from continuing operations  | <b>176,681</b>        | 164,352                 |
| - from discontinued operations  | <u>—</u>              | <u>5,976,424</u>        |
| Profit for the year attributable to owners of the Company             | <b><u>176,681</u></b> | <b><u>6,140,776</u></b> |
| (Loss) profit for the year attributable to non-controlling interests: |                       |                         |
| - from continuing operations  | <b>(4,860)</b>        | 2,055                   |
| - from discontinued operations  | <u>—</u>              | <u>79,617</u>           |
| (Loss) profit for the year attributable to non-controlling interests  | <b><u>(4,860)</u></b> | <b><u>81,672</u></b>    |
| Total comprehensive income (expense) attributable to:                 |                       |                         |
| - Owners of the Company   | <b>176,641</b>        | 6,139,646               |
| - Non-controlling interests   | <u>(4,860)</u>        | <u>81,672</u>           |
|   | <b><u>171,781</u></b> | <b><u>6,221,318</u></b> |
|   | <i>RMB cents</i>      | <i>RMB cents</i>        |
| <b>Earnings per share</b>   | 11                    |                         |
| From continuing and discontinued operations                           |                       |                         |
| - Basic   | <b>34.77</b>          | 1,213.44                |
| - Diluted   | <b><u>34.22</u></b>   | <b><u>1,181.10</u></b>  |
| From continuing operations  |                       |                         |
| - Basic   | <b>34.77</b>          | 32.48                   |
| - Diluted   | <b><u>34.22</u></b>   | <b><u>31.75</u></b>     |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014**

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

|  |              | 2014             | 2013             |
|--|--------------|------------------|------------------|
|  | <i>NOTES</i> | <i>RMB'000</i>   | <i>RMB'000</i>   |
| <b>Current liabilities</b>                   |              |                  |                  |
| Trade and other payables                     | 13           | 209,214          | 152,837          |
| Amounts due to customers for contract work   |              | 424              | —                |
| Deferred income                              |              | 25,595           | 26,553           |
| Amount due to a related company              |              | 1,891            | —                |
| Amount due to an associate                   |              | 8                | —                |
| Secured bank borrowing                       | 14           | 236,805          | 104,672          |
| Other financial liability                    |              | —                | 3,122            |
| Income tax payable                           |              | 137,648          | 539,927          |
|  |              | <u>611,585</u>   | <u>827,111</u>   |
| <b>Net current assets</b>                    |              | <u>3,148,015</u> | <u>3,775,984</u> |
| <b>Total assets less current liabilities</b> |              | <u>4,618,802</u> | <u>4,622,878</u> |
| <b>Non-current liabilities</b>               |              |                  |                  |
| Other payables                               | 15           | 1,283            | —                |
| Deferred tax liabilities                     |              | 116              | —                |
|  |              | <u>1,399</u>     | <u>—</u>         |
| <b>Net assets</b>                            |              | <u>4,617,403</u> | <u>4,622,878</u> |
| <b>Capital and reserves</b>                  |              |                  |                  |
| Share capital                                |              | 36,943           | 37,664           |
| Share premium and reserves                   |              | 4,529,971        | 4,577,478        |
| Equity attributable to owners of the Company |              | 4,566,914        | 4,615,142        |
| Non-controlling interests                    |              | 50,489           | 7,736            |
|  |              | <u>4,617,403</u> | <u>4,622,878</u> |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

Attributable to owners of the Company

|  | Share capital | Share premium | Capital redemption reserve | Other reserve | Capital reserve | Statutory reserves | Dividend reserve | Revaluation reserve | Treasury share reserve | Employee share-based compensation reserve | Translation reserve | Retained profits | Total       | Non-controlling interests | Total equity |
|--|---------------|---------------|----------------------------|---------------|-----------------|--------------------|------------------|---------------------|------------------------|---|---------------------|------------------|-------------|---------------------------|--------------|
|  | RMB'000       | RMB'000       | RMB'000                    | RMB'000       | RMB'000         | RMB'000            | RMB'000          | RMB'000             | RMB'000                | RMB'000                                   | RMB'000             | RMB'000          | RMB'000     | RMB'000                   | RMB'000      |
| At 1 January 2013  | 37,532        | 1,069,844     | 3,717                      | 2,209         | 10,045          | 172,895            | 81,947           | 673                 | (7,225)                | 30,986                                    | (58,179)            | 49,405           | 1,393,849   | 22,154                    | 1,416,003    |
| Profit for the year  | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | 6,140,776        | 6,140,776   | 81,672                    | 6,222,448    |
| Other comprehensive expense for the year   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | (1,130)             | —                | (1,130)     | —                         | (1,130)      |
| Total comprehensive (expense) income for the year  | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | (1,130)             | 6,140,776        | 6,139,646   | 81,672                    | 6,221,318    |
| Repurchase and cancellation of shares  | (422)         | (82,598)      | 422                        | —             | —               | —                  | —                | —                   | —                      | —   | —                   | (422)            | (83,020)    | —                         | (83,020)     |
| Shares issued upon exercise of share options   | 554           | 49,234        | —                          | —             | —               | —                  | —                | —                   | —                      | (16,922)                                  | —                   | —                | 32,866      | —                         | 32,866       |
| Recognition of equity-settled share-based payments   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | 18,559                                    | —                   | —                | 18,559      | —                         | 18,559       |
| Recognition of equity-settled share-based payments granted by subsidiaries                   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                | —           | 144,254                   | 144,254      |
| Conversion of redeemable convertible preferred shares  | —             | —             | —                          | 408,261       | —               | —                  | —                | —                   | —                      | —   | —                   | —                | 408,261     | 188,614                   | 596,875      |
| Contributions from non-controlling interests of a subsidiary                                 | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                | —           | 4,484                     | 4,484        |
| Final dividend for 2012 paid   | —             | —             | —                          | —             | —               | —                  | (81,947)         | —                   | —                      | —   | —                   | (391)            | (82,338)    | —                         | (82,338)     |
| Interim dividend for 2013 declared and paid  | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | (81,329)         | (81,329)    | —                         | (81,329)     |
| Special dividend declared and paid   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | (3,130,303)      | (3,130,303) | —                         | (3,130,303)  |
| Final dividend for 2013 proposed   | —             | —             | —                          | —             | —               | —                  | 79,977           | —                   | —                      | —   | —                   | (79,977)         | —           | —                         | —            |
| Dividend paid to non-controlling interests of a subsidiary                                   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                | —           | (136,316)                 | (136,316)    |
| Acquisition of additional equity interests from non-controlling shareholders of a subsidiary | —             | —             | —                          | (1,049)       | —               | —                  | —                | —                   | —                      | —   | —                   | —                | (1,049)     | 1,049                     | —            |
| Awarded shares vested to employees   | —             | —             | —                          | —             | —               | —                  | —                | —                   | 1,445                  | (2,846)                                   | —                   | 1,401            | —           | —                         | —            |
| Transfer of reserve upon disposal of subsidiaries  | —             | —             | —                          | (410,470)     | —               | (9,391)            | —                | —                   | —                      | —   | —                   | 419,861          | —           | (298,175)                 | (298,175)    |
| Transfer of reserve upon deregistration of a subsidiary                                      | —             | —             | —                          | 1,049         | —               | —                  | —                | —                   | —                      | —   | —                   | (1,049)          | —           | —                         | —            |
| Transfers  | —             | —             | —                          | —             | —               | 39,381             | —                | —                   | —                      | —   | —                   | (39,381)         | —           | —                         | —            |
|  | 132           | (33,364)      | 422                        | (2,209)       | —               | 29,990             | (1,970)          | —                   | 1,445                  | (1,209)                                   | —                   | (2,911,590)      | (2,918,353) | (96,090)                  | (3,014,443)  |
| At 31 December 2013  | 37,664        | 1,036,480     | 4,139                      | —             | 10,045          | 202,885            | 79,977           | 673                 | (5,780)                | 29,777                                    | (59,309)            | 3,278,591        | 4,615,142   | 7,736                     | 4,622,878    |
| Profit (loss) for the year   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | 176,681          | 176,681     | (4,860)                   | 171,821      |
| Other comprehensive expense for the year   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | (40)                | —                | (40)        | —                         | (40)         |
| Total comprehensive (expense) income for the year  | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | (40)                | 176,681          | 176,641     | (4,860)                   | 171,781      |
| Repurchase and cancellation of shares  | (1,084)       | (152,308)     | 1,084                      | —             | —               | —                  | —                | —                   | —                      | —   | —                   | (1,084)          | (153,392)   | —                         | (153,392)    |
| Shares issued upon exercise of share options   | 201           | 18,083        | —                          | —             | —               | —                  | —                | —                   | —                      | (5,820)                                   | —                   | —                | 12,464      | —                         | 12,464       |
| Shares issued upon acquisition of subsidiaries   | 162           | 28,031        | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                | 28,193      | —                         | 28,193       |
| Recognition of equity-settled share-based payments   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | 10,718                                    | —                   | —                | 10,718      | —                         | 10,718       |
| Return of capital to non-controlling interests of a subsidiary                               | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                | —           | (3,990)                   | (3,990)      |
| Contributions from non-controlling interests of subsidiaries                                 | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                | —           | 90,300                    | 90,300       |
| Deemed disposal to non-controlling shareholder   | —             | —             | —                          | 38,755        | —               | —                  | —                | —                   | —                      | —   | —                   | —                | 38,755      | (38,755)                  | —            |
| Final dividend for 2013 paid   | —             | —             | —                          | —             | —               | —                  | (79,977)         | —                   | —                      | —   | —                   | (353)            | (80,330)    | —                         | (80,330)     |
| Interim dividend for 2014 declared and paid  | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | (81,277)         | (81,277)    | —                         | (81,277)     |
| Final dividend for 2014 proposed   | —             | —             | —                          | —             | —               | —                  | 78,865           | —                   | —                      | —   | —                   | (78,865)         | —           | —                         | —            |
| Acquisition of non-wholly owned subsidiaries   | —             | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                | —           | 58                        | 58           |
| Awarded shares vested to employees   | —             | —             | —                          | —             | —               | —                  | —                | —                   | 1,445                  | (2,803)                                   | —                   | 1,358            | —           | —                         | —            |
| Transfers  | —             | —             | —                          | —             | —               | 50,814             | —                | —                   | —                      | —   | —                   | (50,814)         | —           | —                         | —            |
|  | (721)         | (106,194)     | 1,084                      | 38,755        | —               | 50,814             | (1,112)          | —                   | 1,445                  | 2,095                                     | —                   | (211,035)        | (224,869)   | 47,613                    | (177,256)    |
| At 31 December 2014  | 36,943        | 930,286       | 5,223                      | 38,755        | 10,045          | 253,699            | 78,865           | 673                 | (4,335)                | 31,872                                    | (59,349)            | 3,244,237        | 4,566,914   | 50,489                    | 4,617,403    |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

|   | <i>NOTES</i> | <b>2014</b><br><i>RMB'000</i> | 2013<br><i>RMB'000</i> |
|---|--------------|-------------------------------|------------------------|
| <b>NET CASH (USED IN) FROM<br/>OPERATING ACTIVITIES</b>           |              | <u><b>(247,828)</b></u>       | <u>720,958</u>         |
| <b>INVESTING ACTIVITIES</b>                                       |              |                               |                        |
| Interest received   |              | <b>64,141</b>                 | 25,722                 |
| Acquisitions of subsidiaries                                      | 16           | <b>(116,183)</b>              | —                      |
| Acquisitions of associates  |              | <b>(28,992)</b>               | —                      |
| Purchase of held-for-trading investments                          |              | <b>(208,153)</b>              | —                      |
| Acquisitions of available-for-sale investments                    |              | —                             | (6,218)                |
| Proceeds from disposal of property, plant and<br>equipment        |              | <b>388</b>                    | 3,005                  |
| Proceeds from disposal of prepaid lease<br>payments               |              | —                             | 13,074                 |
| Cash (outflow) inflow from disposal of<br>subsidiaries            | 17           | <b>(2,213)</b>                | 5,614,169              |
| Proceeds from disposal of an associate                            |              | —                             | 175                    |
| Proceeds from return of capital from an<br>associate              |              | —                             | 5,600                  |
| Proceeds from disposal of held-for-trading<br>investments         |              | —                             | 5,168                  |
| Deposits paid for acquisition of property,<br>plant and equipment |              | <b>(32,817)</b>               | (16,769)               |
| Placement of bank deposits  |              | <b>(2,421,255)</b>            | (3,071,754)            |
| Placement of pledged bank deposit                                 |              | <b>(236,805)</b>              | (108,268)              |
| Withdrawal of bank deposits                                       |              | <b>3,486,902</b>              | 389,987                |
| Withdrawal of pledged bank deposit                                |              | <b>112,362</b>                | 182,149                |
| Advance of loan receivables                                       |              | <b>(6,348)</b>                | (7,170)                |
| Repayment of loan receivables                                     |              | <b>3,222</b>                  | 3,421                  |
| Repayment of a joint venture                                      |              | —                             | 3,405                  |
| Purchase of prepaid lease payments                                |              | <b>(195,287)</b>              | (60,267)               |
| Purchase of property, plant and equipment                         |              | <b>(330,744)</b>              | (245,455)              |
| Purchase of intangible assets                                     |              | <u><b>(4,097)</b></u>         | <u>—</u>               |
| <b>NET CASH FROM INVESTING<br/>ACTIVITIES</b>                     |              | <u><b>84,121</b></u>          | <u>2,729,974</u>       |

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**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 address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 2209, 22nd Floor, Shun Tak Centre, West Tower, 200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are engaged in online games development, including games design, programming and graphics and online games operation. The Group was also engaged in mobile Internet business which was discontinued since 1 October 2013.

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

**2. 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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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

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

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

|   |  |
|---|--|
| Amendments to HKFRS 10, HKFRS 12<br>and HKAS 27 | Investment Entities                                      |
| Amendments to HKAS 32                           | Offsetting Financial Assets and Financial<br>Liabilities |

|                       |  |
|-----------------------|--|
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets      |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC) - Int 21    | Levies   |

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

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

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

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

#### ***New and revised HKFRSs in issue but not yet effective***

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

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

|                      |  |
|----------------------|--|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011-2013 Cycle <sup>4</sup> |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle <sup>5</sup> |

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

### **HKFRS 9 *Financial Instruments***

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

Key requirements of HKFRS 9 are described below:

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

### **Annual Improvements to HKFRSs 2010-2012 Cycle**

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

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

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

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

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

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group’s consolidated financial statements.

#### 4. REVENUE, OTHER INCOME AND GAINS

|   | 2014           | 2013           |
|---|----------------|----------------|
|   | <i>RMB’000</i> | <i>RMB’000</i> |
| <b>Continuing operations</b>                              |                |                |
| <b>Revenue</b>  |                |                |
| Online game revenue                                       | <u>962,817</u> | <u>884,518</u> |
| <b>Other income and gains</b>                             |                |                |
| Government grants ( <i>Note</i> )                         | 25,262         | 16,101         |
| Interest income   | 93,463         | 23,329         |
| Net foreign exchange gain                                 | 15,417         | —              |
| Gain on disposal of held-for-trading investment           | —              | 229            |
| Gain on disposal of property, plant and equipment         | —              | 147            |
| Net gain on disposal of prepaid lease payments            | —              | 382            |
| Gain on disposal of a subsidiary                          | 98             | —              |
| Gain on disposal of an associate                          | —              | 100            |
| Gain on bargain purchase from acquisition of a subsidiary | 59             | —              |
| Game implementation income                                | 11,246         | —              |
| Compensation income                                       | 1,739          | —              |
| Rental income, net of negligible outgoing expenses        | 524            | 505            |
| Server rental income                                      | 4,703          | —              |
| Others  | <u>4,590</u>   | <u>4,187</u>   |
|   | <u>157,101</u> | <u>44,980</u>  |

*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

|  | <b>2014</b>           | 2013           |
|--|-----------------------|----------------|
|  | <b><i>RMB'000</i></b> | <i>RMB'000</i> |
| Interest on:                                       |                       |                |
| Bank borrowings wholly repayable within five years | <u><b>3,212</b></u>   | <u>4,651</u>   |

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

With effect from 1 October 2013, the Group’s mobile Internet business segment has been classified as discontinued operations upon the disposal of 91 Wireless Websoft Limited (“91 Limited”) and its subsidiaries (“91 Group”), which is described in more details in note 17.

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

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

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

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

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

|             | <b>2014</b><br><i>RMB'000</i> | 2013<br><i>RMB'000</i> |
|-------------|-------------------------------|------------------------|
| Online game | <b>4,236,289</b>              | 5,129,373              |
| Unallocated | <b><u>994,098</u></b>         | <u>320,616</u>         |
|             | <b><u>5,230,387</u></b>       | <u>5,449,989</u>       |

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

### **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:

|                                  | <b>2014</b><br><i>RMB'000</i> | 2013<br><i>RMB'000</i> |
|----------------------------------|-------------------------------|------------------------|
| PRC                              | <b>816,161</b>                | 781,442                |
| United States of America ("USA") | <b>91,267</b>                 | 97,115                 |
| Hong Kong                        | <b>37,770</b>                 | —                      |
| Others                           | <b><u>17,619</u></b>          | <u>5,961</u>           |
|                                  | <b><u>962,817</u></b>         | <u>884,518</u>         |

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:

|           | <b>2014</b><br><i>RMB'000</i> | 2013<br><i>RMB'000</i> |
|-----------|-------------------------------|------------------------|
| PRC       | <b>1,228,275</b>              | 671,042                |
| Hong Kong | <b>219,065</b>                | 93,700                 |
| USA       | <b>58</b>                     | 88                     |
| Indonesia | <b><u>8</u></b>               | <u>—</u>               |
|           | <b><u>1,447,406</u></b>       | <u>764,830</u>         |

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

## 7. TAXATION

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

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

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

## 8. DISCONTINUED OPERATIONS

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



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

|   | 2013<br><i>RMB'000</i>  |
|---|-------------------------|
| Profit for the year from discontinued operations                      |                         |
| Attributable to:  |                         |
| - Owners of the Company   | 164,461                 |
| - Non-controlling interests   | <u>79,617</u>           |
|   | 244,078                 |
| Gain on disposal of subsidiaries, net of related income tax (Note 17) | <u>5,811,963</u>        |
| Profit for the year   | <u><u>6,056,041</u></u> |

The results of the mobile Internet business which was carried out by 91 Group before the date of completion of the Disposal, were as follows:

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

Profit for the year from discontinued operations includes the following:

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

For the year ended 31 December 2013, the discontinued operations contributed RMB410,566,000 to the Group's operating cash inflows, RMB104,571,000 in respect of cash inflows of investing activities and RMB267,747,000 in respect of cash inflows of financing activities up to the effective date of the Disposal.

The carrying amounts of the assets and liabilities of the subsidiaries comprising the discontinued operations at the date of the Disposal are disclosed in note 17.

## 9. PROFIT FOR THE YEAR

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

## 10. DIVIDENDS

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

The final dividend of HKD0.20 (2013: HKD0.20) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB78,865,000 (2013: RMB79,977,000).

## 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:

|   | <b>2014</b><br><i>RMB'000</i> | 2013<br><i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Earnings for the purposes of basic earnings per share:  |                               |                        |
| - profit for the year attributable to the owners of the Company   | <b>176,681</b>                | 6,140,776              |
| Effect of dilutive potential ordinary shares:   |                               |                        |
| - adjustment to the share of profit of subsidiaries based on dilution of their earnings per share ( <i>Note</i> ) | <u>—</u>                      | <u>(26,009)</u>        |
| Earnings for the purpose of diluted earnings per share  | <u><b>176,681</b></u>         | <u>6,114,767</u>       |

|  | <b>Number of shares</b> |                |
|--|-------------------------|----------------|
|  | <b>2014</b>             | 2013           |
|  | <b>'000</b>             | <b>'000</b>    |
| 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) | <b>508,158</b>          | 506,063        |
| Effect of dilutive potential shares from the Company's share option scheme   | <u><b>8,096</b></u>     | <u>11,656</u>  |
| 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)                             | <u><b>516,254</b></u>   | <u>517,719</u> |

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

#### **From continuing operations**

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

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

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

Basic and diluted earnings per share from discontinued operations were RMB1,180.96 cents and RMB1,149.35 cents, respectively, for the year ended 31 December 2013, based on the profit attributable to the owners of the Company from discontinued operations of approximately RMB5,976,424,000 (and after adjustment to the share of profit of subsidiaries of approximately RMB26,009,000 for diluted earnings per share) and the denominators detailed above for both basic and diluted earnings per share from continuing operations.

## 12. 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.

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

Before accepting any new agent/customer, the Group uses an internal credit assessment policy to assess the potential agent/customer's credit quality and define credit limits by agent/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB8,523,000 (2013: RMB9,052,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

### Ageing of trade receivables which are past due but not impaired

|              | <b>2014</b>           | 2013           |
|--------------|-----------------------|----------------|
|              | <b><i>RMB'000</i></b> | <i>RMB'000</i> |
| 31 - 60 days | <b>2,023</b>          | 4,969          |
| 61 - 90 days | <b>6,010</b>          | 470            |
| Over 90 days | <b><u>490</u></b>     | <u>3,613</u>   |
| Total        | <b><u>8,523</u></b>   | <u>9,052</u>   |

### Movement in the allowance for doubtful debts

|   | <b>2014</b>         | 2013           |
|---|---------------------|----------------|
|   | <i>RMB'000</i>      | <i>RMB'000</i> |
| At beginning of year                    | <b>3,025</b>        | 3,120          |
| Allowances recognised on receivables    | <b>4,509</b>        | 2,460          |
| Amount written off as uncollectible     | —                   | (156)          |
| Acquired on acquisition of subsidiaries | <b>139</b>          | —              |
| Eliminated on disposal of subsidiaries  | —                   | (2,304)        |
| Exchange differences                    | <b>(9)</b>          | (95)           |
|   | <u><b>7,664</b></u> | <u>3,025</u>   |
| At end of year                          | <u><b>7,664</b></u> | <u>3,025</u>   |

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

### 13. TRADE AND OTHER PAYABLES

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

*Note:* On 28 December 2011, 91 Limited introduced a share award scheme, whereby eligible participants are conferred rights by 91 Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Limited. Upon the Disposal on 1 October 2013 as described in note 8, the eligible participants would be entitled to the merger consideration of United States dollar (“USD”) 13.168 per share and the special dividend of USD0.371 per share of 91 Limited in cash, which were both received by the Group on behalf of the eligible participants. As at 31 December 2014, an amount of approximately RMB5.7 million of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.

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

|                | <b>2014</b>                | 2013                |
|----------------|----------------------------|---------------------|
|                | <b><i>RMB'000</i></b>      | <i>RMB'000</i>      |
| 0 - 90 days    | <b>5,875</b>               | 2,576               |
| 91 - 180 days  | <b>2,096</b>               | 3,121               |
| 181 - 365 days | <b>158</b>                 | 61                  |
| Over 365 days  | <b><u>509</u></b>          | <u>292</u>          |
|                | <b><u><u>8,638</u></u></b> | <u><u>6,050</u></u> |

#### **14. SECURED BANK BORROWING**

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

The secured bank borrowing as at 31 December 2013, which was denominated in Australian dollar at interest rate of 3.84% per annum, was fully repaid on 5 September 2014. The borrowing was secured by the pledged bank deposit which was denominated in USD and was fully released upon the repayment of bank borrowing.

#### **15. OTHER PAYABLES**

Other payables represent the consideration received on behalf of the eligible participants of the share award scheme upon the disposal of 91 Limited as described in note 8. As at 31 December 2014, an amount of approximately RMB2,385,000, which is repayable within twelve months after the end of the reporting period in accordance with the deferred payment agreement, is included in other payables as current liabilities. The remaining balance of approximately RMB1,283,000, which is repayable on 31 January 2016 in accordance with the deferred payment agreement, is included as non-current liabilities.

#### **16. ACQUISITION OF SUBSIDIARIES**

On 3 June 2014, the Group entered into an agreement with an independent third party to acquire 100% equity interests of Cherrypicks International Holdings Limited (“Cherrypicks”) and its subsidiaries (“Cherrypicks Group”) at a consideration of USD26,051,000 (equivalent to RMB160,211,000). The consideration was partly satisfied by cash and partly satisfied by the allotment and issue of 2,626,204 new shares of the Company credited as fully paid up at an issue price of HKD13.3653 (the “Consideration Shares”). The Consideration Shares were allotted and issued pursuant to the general mandate to allot and issue shares representing 20% of the issued



share capital of the Company as at 23 May 2014 granted to the directors by the shareholders at the annual general meeting of the Company on 23 May 2014. The transaction was completed on 21 July 2014. Cherrypicks is a leading enterprise in mobile technology and mobile marketing in the Asia Pacific region.

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

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

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

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

### Non-controlling interests

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

### Goodwill arising on acquisition of Cherrypicks Group

|  | <i>RMB'000</i>   |
|--|------------------|
| Consideration transferred                            | 160,211          |
| Less: fair value of identifiable net assets acquired | <u>(132,732)</u> |
| Goodwill arising on acquisition                      | <u>27,479</u>    |

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

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

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

### Net cash outflow on acquisition of subsidiaries

|  | <i>RMB'000</i> |
|--|----------------|
| Consideration paid in cash                       | 116,035        |
| Less: cash and cash equivalent balances acquired | (6,022)        |
| Add: shareholder's loan                          | <u>6,170</u>   |
|  | <u>116,183</u> |

## Impact of acquisition on the results of the Group

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

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

## 17. DISPOSAL OF SUBSIDIARIES

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

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

On 14 August 2013, NetDragon BVI and Baidu entered into S&P Agreement pursuant to which NetDragon BVI had conditionally agreed to sell, and Baidu had conditionally agreed to purchase the entire equity interest of 91 Group. Under such agreement, the Group shall be entitled to receive an aggregate consideration of USD1.09 billion (equivalent to approximately RMB6,704 million) before a special dividend of USD29.89 million (equivalent to approximately RMB184 million). 91 Group carries out all of the Group's mobile Internet business which is classified as discontinued operations for the Group as a result of the Disposal. The net assets of 91 Group at the date of the Disposal were as follows:

|  | <i>RMB'000</i>   |
|--|------------------|
| <b>Consideration received and receivable:</b>                          |                  |
| Cash received  | 6,459,419        |
| Other receivable   | 60,969           |
| Legal and professional fees  | <u>(12,025)</u>  |
|  | <u>6,508,363</u> |
| <b>Analysis of assets and liabilities over which control was lost:</b> |                  |
| 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   | <u>(27,695)</u>  |
| Net assets disposed of   | <u>497,130</u>   |

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  | <u>(12,025)</u> |

|  |             |
|--|-------------|
|  | 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 | <u>(50)</u> |

|  |                  |
|--|------------------|
| Gain on disposal of subsidiaries before taxation | 6,309,358        |
| Taxation   | <u>(497,395)</u> |

|   |                         |
|---|-------------------------|
| Gain on disposal of subsidiaries, net of related income tax | <u><u>5,811,963</u></u> |
|---|-------------------------|

**Net cash inflow arising on disposal:**

|                                    |                         |
|------------------------------------|-------------------------|
| Consideration received             | 6,643,195               |
| Bank balances and cash disposed of | (1,017,001)             |
| Legal and professional fees        | <u>(12,025)</u>         |
|                                    | <u><u>5,614,169</u></u> |

The impact of disposed subsidiaries on the Group's results and cash flows for the year ended 31 December 2013 is disclosed in note 8.

## **18. EVENTS AFTER THE REPORTING PERIOD**

### **Issue of Series A Preferred Shares by Best Assistant Education Online Limited (“Best Assistant”)**

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

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

### **Repurchase of shares**

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

## 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*):

|            | <b>Three months ended</b>   |                      |                 |                  |                     |
|------------|-----------------------------|----------------------|-----------------|------------------|---------------------|
|            | <b>31 December<br/>2014</b> | 30 September<br>2014 | 30 June<br>2014 | 31 March<br>2014 | 31 December<br>2013 |
| <b>PCU</b> | <b>642,000</b>              | 382,000              | 471,000         | 472,000          | 477,000             |
| <b>ACU</b> | <b>301,000</b>              | 225,000              | 239,000         | 239,000          | 266,000             |

*Note:* As at 31 December 2014, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online, Dungeon Keeper™ Online, Calibur of Spirit Online and other games.

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

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

**FINANCIAL PERFORMANCE HIGHLIGHTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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

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



## Revenue

### *Continuing operations*

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

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

|                 | Year ended 31 December |                     |                       |                     |
|-----------------|------------------------|---------------------|-----------------------|---------------------|
|                 | 2014                   |                     | 2013                  |                     |
|                 | <i>RMB'000</i>         | <i>% of revenue</i> | <i>RMB'000</i>        | <i>% of revenue</i> |
| <b>PRC</b>      | <b>816,161</b>         | <b>84.8</b>         | 781,442               | 88.3                |
| <b>Overseas</b> | <u><b>146,656</b></u>  | <u><b>15.2</b></u>  | <u>103,076</u>        | <u>11.7</u>         |
|                 | <u><b>962,817</b></u>  | <u><b>100.0</b></u> | <u><b>884,518</b></u> | <u><b>100.0</b></u> |

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

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

## **Fourth Quarter of 2014**

### *Continuing operations*

#### **Revenue**

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

#### **Cost of revenue**

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

#### **Other income and gains**

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

#### **Selling and marketing expenses**

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

#### **Administrative expenses**

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

### **Development costs**

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

### **Other expenses**

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

### **Net loss on derivative financial instrument**

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

### **Finance costs**

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

### **(Loss) profit for the period from continuing operations**

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

### ***Continuing and discontinued operations***

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Fourth Quarter of 2014 Compared to Third Quarter of 2014

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

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

## FINANCIAL REVIEW

### Revenue

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

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

|                 | Three months ended    |                     |                       |                     |
|-----------------|-----------------------|---------------------|-----------------------|---------------------|
|                 | 31 December 2014      |                     | 30 September 2014     |                     |
|                 | <i>RMB'000</i>        | <i>% of revenue</i> | <i>RMB'000</i>        | <i>% of revenue</i> |
| <b>PRC</b>      | <b>229,042</b>        | <b>81.0</b>         | 195,877               | 84.2                |
| <b>Overseas</b> | <b>53,838</b>         | <b>19.0</b>         | 36,825                | 15.8                |
|                 | <b><u>282,880</u></b> | <b><u>100.0</u></b> | <b><u>232,702</u></b> | <b><u>100.0</u></b> |

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

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

### Cost of revenue

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

## **Gross profit**

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

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

## **Other income and gains**

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

## **Selling and marketing expenses**

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

## **Administrative expenses**

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

## **Development costs**

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

## **Other expenses**

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

## **Taxation**

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

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

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

## Fourth Quarter of 2014 Compared to Fourth Quarter of 2013

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

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



## FINANCIAL REVIEW

### *Continuing operations*

#### Revenue

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

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

|                 | Three months ended 31 December |                     |                       |                     |
|-----------------|--------------------------------|---------------------|-----------------------|---------------------|
|                 | 2014                           |                     | 2013                  |                     |
|                 | <i>RMB'000</i>                 | <i>% of revenue</i> | <i>RMB'000</i>        | <i>% of revenue</i> |
| <b>PRC</b>      | <b>229,042</b>                 | <b>81.0</b>         | 205,178               | 89.6                |
| <b>Overseas</b> | <b>53,838</b>                  | <b>19.0</b>         | 23,823                | 10.4                |
|                 | <b><u>282,880</u></b>          | <b><u>100.0</u></b> | <b><u>229,001</u></b> | <b><u>100.0</u></b> |

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

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

#### Cost of revenue

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

## **Gross profit**

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

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

## **Other income and gains**

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

## **Selling and marketing expenses**

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

## **Administrative expenses**

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

## **Development costs**

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

## **Other expenses**

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

## **Taxation**

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

## ***Continuing and discontinued operations***

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

Loss for the period attributable to the owners of the Company for the three months ended 31 December 2014 was approximately RMB19.4 million, whereas, profit for the period attributable to the owners of the Company for the three months ended 31 December 2013 was approximately RMB5,807.1 million.

## NON-GAAP FINANCIAL MEASURES

To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Group’s current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures of the Group exclude share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, interest income on pledged bank deposits, exchange gain (loss) on pledged bank deposits, secured bank borrowings and redeemable convertible preferred shares, net gain (loss) on derivative financial instruments, finance costs and gain on disposal of subsidiaries (net of related income tax).

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

|  | Year ended                            |                                       | Three months ended                    |  |                                       |
|--|---------------------------------------|---------------------------------------|---------------------------------------|--|---------------------------------------|
|  | 31 December<br>2014<br><i>RMB'000</i> | 31 December<br>2013<br><i>RMB'000</i> | 31 December<br>2014<br><i>RMB'000</i> | 30 September<br>2014<br><i>RMB'000</i> | 31 December<br>2013<br><i>RMB'000</i> |
| Non-GAAP operating profit                                    | <b>284,711</b>                        | 671,158                               | <b>13,540</b>                         | 66,863                                 | 11,336                                |
| Non-GAAP profit (loss)                                       | <b>220,514</b>                        | 514,844                               | <b>4,098</b>                          | 62,697                                 | (5,421)                               |
| Non-GAAP profit (loss) attributable to owners of the Company | <b>225,374</b>                        | 433,172                               | <b>6,849</b>                          | 62,873                                 | (7,507)                               |

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2014, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB3,273.2 million (31 December 2013: RMB4,463.0 million), out of which approximately RMB236.8 million (31 December 2013: RMB107.4 million) has been pledged to bank to secure bank borrowing. The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.05 (31 December 2013: 0.02). As at 31 December 2014, total bank borrowing of the Group amounted to approximately RMB236.8 million (31 December 2013: RMB104.7 million fixed-rate loan) was floating-rate loan.

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

## 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<br>31 December<br>2014 | At<br>30 September<br>2014 | At<br>31 December<br>2013 |
|---|---------------------------|----------------------------|---------------------------|
| Research and development                          | 1,850                     | 1,654                      | 1,230                     |
| Selling and marketing                             | 743                       | 632                        | 520                       |
| Accounting, finance and general<br>administration | <u>706</u>                | <u>1,128</u>               | <u>518</u>                |
| Total   | <u>3,299</u>              | <u>3,414</u>               | <u>2,268</u>              |

## BUSINESS REVIEW

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

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

## MMORPGS

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

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

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

\* For identification purpose only

## **Mobile Games**

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

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

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

By consistently launching new mobile games and leveraging its deep experience to expand its market share, the Group is confident that its mobile game business will achieve great results.

## **Online and Mobile Education**

During the year under review, the Group began creating an eco-system for online education by developing products geared towards K-12, vocational, non-academic credential and lifelong education. The Group is using its mobile internet technology to improve the learning environment by applying innovative educational concepts such as gamification and analyzing user behavior.

\* For identification purpose only

The Group is currently focusing its product development in the K-12 education space within the online education value chain. The Group made very strong progress in research and development, pedagogy integration, content partnership and acquisition for its online and mobile education business during the year under review.

### *Research & Development*

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

### *Pedagogy Integration*

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



### *Content Partnerships*

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

### *Other developments*

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

### **Strengthen Competitiveness**

The Group is committed to strengthening its research and development (R&D) capabilities as it gradually transitions into a design-oriented company. The Group believes this will be critical to the success of its MMORPG, mobile games and online education businesses. The Group has focused on talent optimization and has been strengthening its R&D capabilities, while it maintains its core competitiveness and create continued sustainable growth. As of 31 December 2014, the Group had a total number of 3,299 people on staff, of which 1,850 are engaged in R&D and have extensive experience in programming, design and art.

### **Strategic Merger with Cherrypicks**

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

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

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

### **Project in Haixi Animation Creativity City (the “Project”)**

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

- I Phase I covers an area of 246.8 mu. It is used by the Group for research and development, exchange and quality control development. Currently, several main buildings have been constructed, including the Group’s office building and Pentagonal Building\* (五角大樓), with a gross floor area of approximately 33,000 square meters. Operations are currently underway.
- II Phase II covers an area of 296.5 mu. This is the core animation research center of the Group. After two years of construction, the main building of the Group’s landmark building, Enterprise\* (企業號), was officially put into operation on 18 May 2014. Other ancillary buildings are under construction within the area.

\* For identification purpose only

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

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

IV The Group also places great emphasis on the development of education segment. It is planning to construct a new Changle campus for Fuzhou Software Technology Vocational College, which has a student enrolment of approximately 8,000 and occupies an area of 536.2 mu. Currently, the project has completed planning, design and land planning permission, and when put into use, the project will form an industry cluster effect together with the three projects in the park by the way of "learning supported by production, research facilitated by production, learning combined with production" to boost the emergence and development of Haixi animation creation industry.

The construction of the Project will help form a full-scale high-tech industry cluster and animation industry chain for "technological research and development, application and production" in the area, making it a new town with the most sophisticated technology and the most ecology-friendly industry, a creative new town with the greatest potential, and a new innovative culture zone along the south-eastern coast in China.

## **PROSPECTS AND OUTLOOK**

Looking ahead, the Group will continue to recruit and train industry talent to maintain its R&D and operational capabilities. While developing new titles to expand its game pipeline, the Group will continue to lengthen the life cycles of its existing games and maximize revenues by providing content updates and new expansion packs as well as overseas versions of the games in its portfolio. The Group will also continue to invest in mobile games. By leveraging its large game operations and R&D experience, the Group will continue to release products catering to mobile game users' preferences as it seeks to expand into this rapidly developing market.

At the same time, the Group will make use of its capital resources to release high-quality online education products as it seeks to become the leader in the rapidly growing online education market. The Group will also seek out strategic opportunities in new businesses to generate growth drivers that ensure the Group's future success.

## **MMORPGS**

### *Calibur of Spirit (英魂之刃)*

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

### *Tiger Knight (虎豹騎)*

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

## **Mobile Games**

### *Eudemons Online Pocket Version\* (魔域口袋版)*

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

\* For identification purpose only

### *Blade & Sword\** (最江湖)

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

### *Waku & Maou\** (暗黒戦魂)

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

### *Martial Overlord\** (武魂天下)

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

## **Online and Mobile Education**

### *Channel Build-Out*

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

### *Mergers & Acquisitions (M&A)*

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

## *Fundraising*

In February 2015, the Group's education subsidiary closed a Series A equity fundraising round of US\$52.5 million led by globally renowned investors, at a valuation of US\$477.5 million.

## **CONCLUSION**

The Group experienced a healthy 8.9% increase in revenue to RMB962.8 million during the year as it further consolidated its market position in the gaming space and pushed forward with the development of the online education platform. The Group's online games business continues to gain strong growth momentum during the quarter with peak concurrent users reaching 642,000 as revenues increased 6.7% year-over-year to RMB221.5 million. One of the newest games, Calibur of Spirit (英魂之刃), continues to gain strong user traction following its selection for the World Cyber Arena last fall. The Group signed an exclusive China licensing agreement with Tencent Holdings Limited and officially launched the game in January 2015 where it achieved record-high Monthly Active Users of 7 million that month and monthly gross revenue over RMB21 million in February 2015. With such a strong performance at the beginning of its lifespan, the Group is confident that this game will develop into a substantial long-term new revenue stream as large scale marketing campaigns get underway and new updates are launched throughout the year. The Group launched new expansion packs for its flagship games during the period including an English version for Conquer Online (征服) which generated an 11-year high monthly revenue in December 2014. Also, the Group is excited to beta-launch Tiger Knight (虎豹骑) in 2015.

The Group continued to incubate its mobile games business during the quarter and have seen encouraging progress from Eudemons Online Pocket Version\* (魔域口袋版) which was officially launched in January 2015 and is expected to register over RMB10 million in monthly gross revenue in March 2015. The iOS and Android versions of Blade & Sword\* (最江湖) continue to make steady progress through the various stages of development while the Arabic version of The Pirate\* (大海盗) remains extremely popular across the Middle East and North Africa where it is expected to continue to grow as new updates are launched.

The Group's new strategic business focus continues to be its online education business which completed a round of Series A Preferred Shares funding of US\$52.5 million in February 2015. The participation of globally renowned investors demonstrates the confidence they have in the Group's unique position to leverage the Group's proven world-class mobile internet and gaming expertise, large-scale

technology resources and team infrastructure to build an online and mobile education ecosystem. The Group is making very solid progress in the design and development of its educational products, and remain on track to gradually roll them out as each development milestone is achieved. The Group expect to make exciting announcements in the coming months regarding its overall product strategy and the unique value proposition it can create for students, educators and parents.

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

As at 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

| <b>Name of Director</b>    | <b>Name of company</b> | <b>Capacity and nature of interests</b>               | <b>Number of shares and underlying shares held or amount of registered capital contributed</b><br><i>(Note 1)</i> | <b>Approximate percentage of shareholding</b> |
|----------------------------|------------------------|---|---|---|
| Liu Dejian <i>(Note 2)</i> | The Company            | Beneficial owner and through a controlled corporation | 253,982,257(L)  | 50.81%  |
| Liu Dejian <i>(Note 3)</i> | NetDragon (Fujian)     | Beneficial owner                                      | RMB9,886,000(L)   | 98.86%  |
| Liu Dejian <i>(Note 3)</i> | NetDragon (Shanghai)   | Beneficial owner and through a controlled corporation | RMB1,000,000(L)   | 100.00%                                       |
| Liu Luyuan <i>(Note 2)</i> | The Company            | Beneficial owner and beneficiary of a trust           | 255,510,057 (L)   | 51.12%  |

| <b>Name of Director</b>               | <b>Name of company</b> | <b>Capacity and nature of interests</b>               | <b>Number of shares and underlying shares held or amount of registered capital contributed</b><br><i>(Note 1)</i> | <b>Approximate percentage of shareholding</b> |
|---------------------------------------|------------------------|---|---|---|
| Liu Luyuan <i>(Note 3)</i>            | NetDragon (Fujian)     | Beneficial owner                                      | RMB9,886,000(L)   | 98.86%  |
| Liu Luyuan <i>(Note 3)</i>            | NetDragon (Shanghai)   | Beneficial owner and through a controlled corporation | RMB1,000,000(L)   | 100.00%                                       |
| Zheng Hui <i>(Note 2)</i>             | The Company            | Beneficial owner and through controlled corporations  | 253,982,257 (L)   | 50.81%  |
| Zheng Hui <i>(Note 3)</i>             | NetDragon (Fujian)     | Beneficial owner                                      | RMB9,886,000(L)   | 98.86%  |
| Zheng Hui <i>(Note 3)</i>             | NetDragon (Shanghai)   | Beneficial owner and through a controlled corporation | RMB1,000,000(L)   | 100.00%                                       |
| Chen Hongzhan <i>(Note 4)</i>         | The Company            | Beneficial owner and beneficiary of a trust           | 13,090,019(L)   | 2.62%   |
| Chao Guowei, Charles <i>(Note 5)</i>  | The Company            | Beneficial owner                                      | 818,000(L)  | 0.16%   |
| Lee Kwan Hung <i>(Note 6)</i>         | The Company            | Beneficial owner                                      | 1,306,019(L)  | 0.26%   |
| Liu Sai Keung, Thomas <i>(Note 7)</i> | The Company            | Beneficial owner                                      | 1,235,019(L)  | 0.25%   |

*Notes:*

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.36% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 38.23% of the issued voting shares of the Company.

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

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



Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.23% and 3.81%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.78% of the issued voting shares of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 50.09% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, Fitter Property Inc. and Eagle World International Inc..

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”), which in turn is interested in 99.00% of the registered capital of Shanghai Tiankun Digital Technology Limited\* (上海天坤數碼科技有限公司) (“NetDragon (Shanghai)”). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).
4. Chen Hongzhan is interested in 2.62% of the issued voting shares of the Company which is represented by personal interest of 1,627,800 shares, interest held as a beneficiary of a trust of 11,306,019 shares and the rest being underlying shares of interest of 156,200 share options granted by the Company.
5. Chao Guowei, Charles is interested in 0.16% of the issued voting shares of the Company which is represented by the underlying shares of interest of 818,000 shares options granted by the Company.
6. Lee Kwan Hung is interested in 0.26% of the issued voting shares of the Company which is represented by beneficial interest of 588,019 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.
7. Liu Sai Keung, Thomas is interested in 0.25% of the issued voting shares of the Company which is represented by beneficial interest of 417,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

\* *For identification purpose only*

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2014, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 31 December 2014, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

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

Notes:

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

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.17%, 10.40%, 2.13% and 0.97% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
  - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
  - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
  - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. First Elite Group Limited is controlled by SMP Trustees (Hong Kong) Limited, which held on trust for Richmedia Holdings Limited.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2014.

## SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the “Main Board Share Option Scheme”) to replace the existing share option scheme. Details of the share options outstanding and movement during the year ended 31 December 2014 are as follows:

| Grantee                                    | Date of grant | Exercise Price<br>HKD | As at 1<br>January<br>2014 | Number of share options |                  |                  | As at 31<br>December<br>2014 |
|--|---------------|-----------------------|----------------------------|-------------------------|------------------|------------------|------------------------------|
|  |               |                       |                            | Granted                 | Exercised        | Lapsed           |                              |
| <b>Executive Directors</b>                 |               |                       |                            |                         |                  |                  |                              |
| Liu Dejian                                 | 07.12.2009    | 4.33                  | 320,000                    | —                       | 320,000          | —                | 0                            |
|  | 22.07.2011    | 4.60                  | 213,000                    | —                       | 56,800           | —                | 156,200                      |
| Liu Luyuan                                 | 07.12.2009    | 4.33                  | 1,400,000                  | —                       | —                | —                | 1,400,000                    |
|  | 22.07.2011    | 4.60                  | 284,000                    | —                       | —                | —                | 284,000                      |
| Zheng Hui                                  | 22.07.2011    | 4.60                  | 213,000                    | —                       | 56,800           | —                | 156,200                      |
| Chen Hongzhan                              | 07.12.2009    | 4.33                  | 320,000                    | —                       | 320,000          | —                | 0                            |
|  | 22.07.2011    | 4.60                  | 213,000                    | —                       | 56,800           | —                | 156,200                      |
| <b>Independent non-executive Directors</b> |               |                       |                            |                         |                  |                  |                              |
| Chao Guowei, Charles                       | 22.07.2011    | 4.60                  | 200,000                    | —                       | —                | —                | 200,000                      |
|  | 23.04.2012    | 5.74                  | 300,000                    | —                       | —                | —                | 300,000                      |
|  | 04.12.2013    | 15.72                 | 318,000                    | —                       | —                | —                | 318,000                      |
| Lee Kwan Hung                              | 22.07.2011    | 4.60                  | 200,000                    | —                       | —                | —                | 200,000                      |
|  | 23.04.2012    | 5.74                  | 300,000                    | —                       | 100,000          | —                | 200,000                      |
|  | 04.12.2013    | 15.72                 | 318,000                    | —                       | —                | —                | 318,000                      |
| Liu Sai Keung, Thomas                      | 22.07.2011    | 4.60                  | 200,000                    | —                       | —                | —                | 200,000                      |
|  | 23.04.2012    | 5.74                  | 300,000                    | —                       | —                | —                | 300,000                      |
|  | 04.12.2013    | 15.72                 | 318,000                    | —                       | —                | —                | 318,000                      |
| <b>Others</b>                              |               |                       |                            |                         |                  |                  |                              |
| Employees                                  | 07.12.2009    | 4.33                  | 160,000                    | —                       | 80,000           | —                | 80,000                       |
|  | 28.04.2011    | 4.80                  | 8,016,784                  | —                       | 1,695,835        | 758,355          | 5,562,594                    |
|  | 22.07.2011    | 4.60                  | 604,463                    | —                       | 299,450          | 27,775           | 277,238                      |
|  | 23.04.2012    | 5.74                  | 1,601,667                  | —                       | 169,900          | 260,550          | 1,171,217                    |
|  | 06.07.2012    | 6.53                  | 588,075                    | —                       | 79,962           | 34,875           | 473,238                      |
|  | 12.09.2012    | 7.20                  | 83,000                     | —                       | 2,250            | 27,500           | 53,250                       |
|  | 16.01.2013    | 11.164                | 700,000                    | —                       | 20,050           | 104,600          | 575,350                      |
|  | 25.04.2014    | 14.66                 | —                          | 556,000                 | —                | —                | 556,000                      |
| Total                                      |               |                       | <u>17,170,989</u>          | <u>556,000</u>          | <u>3,257,847</u> | <u>1,213,655</u> | <u>13,255,487</u>            |

*Notes:*

1. On 25 April 2014, 556,000 share options were granted to the employee of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 25 April 2014 (the trading day on the grant of the share options) was HKD14.66.
2. During the year under review, 910,400 share options were exercised by Directors of the Company.

## **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 2014, 952,203 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 317,400 vesting awarded shares in 2014, a total of 118,212 awarded shares were vested by 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.

***Best Assistant Education Online Limited (“Best Assistant”)***

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

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

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

As at 31 December 2014, no awarded shares were granted under the Best Assistant Share Award Scheme.

**ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT**

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

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

The Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Management Committee (as defined below) with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000.

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

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

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

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



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

## **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 of 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 of the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the year ended 31 December 2014.

## **FINAL DIVIDEND**

At the Board meeting held on Thursday, 26 March 2015, it was proposed that a final dividend of HKD0.20 per share for the year ended 31 December 2014, amounting to approximately RMB78,865,000 be paid on or before Monday, 15 June 2015 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Friday, 29 May 2015. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming AGM to be held on Thursday, 21 May 2015.

## **CLOSURE OF REGISTER OF MEMBERS**

### **(a) For determining the entitlement to attend and vote at the 2015 AGM**

The Company's register of members will be closed from Tuesday, 19 May 2015 to Thursday, 21 May 2015, 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 18 May 2015 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 2014 to shareholders whose names appear on the register of members of the Company on Friday, 29 May 2015 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, 29 May 2015 to Wednesday, 3 June 2015, 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 28 May 2015.

**PUBLICATION OF FINAL RESULTS AND 2014 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 2015 AGM will be held on Thursday, 21 May 2015. 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 2014 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 2014 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

Details of the shares buy-backs are as follows:

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

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

Hong Kong, 26 March 2015

*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.*