

NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8288

Listing on
the Growth Enterprise Market

INTERNATIONAL PLACING

Global Coordinator and Bookrunner

**BEAR
STEARNS**

Bear Stearns Asia Limited

Joint Sponsors

**BEAR
STEARNS**

Bear Stearns Asia Limited

 **第一上海**
FIRST SHANGHAI GROUP

First Shanghai Capital Limited

Joint Lead Managers

**BEAR
STEARNS**

Bear Stearns Asia Limited

 **第一上海**
FIRST SHANGHAI GROUP

First Shanghai Securities Limited

IMPORTANT

If you are in any doubt about any contents of this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other independent professional adviser.

NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF INTERNATIONAL PLACING

Number of Placing Shares : 95,600,000 new Shares and 12,400,000 Sale Shares
(subject to the Over-allotment Option)

Placing Price : Not more than HK\$13.18 per Share (payable in full upon application, plus brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange levy of 0.005%) and not less than HK\$11.18 per Share

Nominal value : US\$0.01 each

Stock code : 8288

Global Coordinator and Bookrunner

BEAR STEARNS

Bear Stearns Asia Limited

Joint Sponsors

Joint Lead Managers

**BEAR
STEARNS**

Bear Stearns Asia Limited



第一上海
FIRST SHANGHAI GROUP

First Shanghai Capital Limited

**BEAR
STEARNS**

Bear Stearns Asia Limited



第一上海
FIRST SHANGHAI GROUP

First Shanghai Securities Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies of Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Placing Price (as defined in this prospectus) which is currently expected to be not less than HK\$11.18 per Share and will not be more than HK\$13.18 per Share is expected to be fixed by an agreement between Bear Stearns Asia Limited (for itself and on behalf of the Underwriters) and the Company at or before the Price Determination Date (as defined in this prospectus) which is currently expected to be on or before Friday, 26 October 2007 and, in any event, not later than Monday, 29 October 2007. If Bear Stearns Asia Limited (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Placing Price by the Price Determination Date, the International Placing will not become unconditional and will lapse. In such case, an announcement will be made immediately by the Company on the GEM website.

Prospective investors of the Placing Shares should be aware that the Placing Price to be determined at or before the Price Determination Date may be, but is currently not expected to be, lower than the indicative range of the Placing Price stated in this prospectus. The Placing Price, the level of indication of interests in the International Placing and the basis of allocations of the Placing Shares will be announced on the GEM website at or before 9:00 a.m. on Thursday, 1 November 2007.

Prospective investors of the Placing Shares should note that Bear Stearns Asia Limited (for itself and on behalf of the Underwriters) may terminate the obligations of the Underwriters, under the Underwriting Agreement (as defined in this prospectus) by notice in writing to the Company, upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. on the Listing Date. Such events include, without limitation, any acts of government, strikes, lockouts, fire, explosion, flooding, civil commotions, act of war, terrorism, acts of God, riot, public disorder, epidemic or interruption in transportation.

23 October 2007

CHARACTERISTICS OF GEM

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies on GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

2007

(Note 1)

Expected Price Determination Date (*Note 2*)Friday, 26 October
in any event, not later than
Monday, 29 October

Announcement of the Placing Price and the level of
indication of interests in the International Placing to be
published on the GEM website at
www.hkgem.com on or beforeThursday, 1 November

Deposit of Share certificates on or before (*Note 3*)Thursday, 1 November

Dealings in the Shares on GEM commence onFriday, 2 November

Notes:

- (1) All times and dates stated herein refer to Hong Kong time.
- (2) The Price Determination Date is expected to be on or before Friday, 26 October 2007 and in any event, not later than Monday, 29 October 2007. If the Placing Price is not agreed between Bear Stearns (for itself and on behalf of the Underwriters) and us by the Price Determination Date, the International Placing will not proceed and will lapse.
- (3) The Placing Shares will be distributed to the placees through CCASS. The Share certificates will be issued in the name of HKSCC Nominees Limited and are expected to be deposited into CCASS on or before Thursday, 1 November 2007 for credit to the respective CCASS participants' stock accounts as designated by the Underwriters, the individual placees or their agents (as the case may be). We will not issue any temporary documents of title.
- (4) For details of the structure of the International Placing, including the conditions of the International Placing, please refer to the section headed "Structure and conditions of the International Placing" in this prospectus.
- (5) In the event of any change to the expected timetable as set out above, an announcement will be made by us to inform investors accordingly.

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision.

The Company, the Joint Sponsors or the Underwriters have not authorised anyone to provide you with information that is not contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Joint Sponsors, the Underwriters, any of their respective directors, employees or any other person or party involved in the International Placing and you should not rely on the information contained therein.

	<i>Page</i>
CHARACTERISTICS OF GEM	i
EXPECTED TIMETABLE	ii
CONTENTS	iii
SUMMARY	1
DEFINITIONS	18
GLOSSARY OF TECHNICAL TERMS	27
RISK FACTORS	29
INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING .	54
CORPORATE INFORMATION	58
DIRECTORS	60
PARTIES INVOLVED IN THE INTERNATIONAL PLACING	62
INDUSTRY OVERVIEW	64
REGULATIONS RELATING TO THE INDUSTRY	69
HISTORY AND ACTIVE BUSINESS PURSUITS	82
SHAREHOLDING AND CORPORATE STRUCTURE	92
STRUCTURE CONTRACTS	101

CONTENTS

	<i>Page</i>
BUSINESS	
Overview	116
Competitive strengths	117
Our MMORPGs	119
Existing games	120
Game development pipeline	123
Our operations	124
Technology infrastructure	131
Customers	132
Suppliers	133
Competition	133
Facilities	134
Insurance	134
Intellectual property and proprietary rights	135
Awards and recognition	136
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS	138
STATEMENT OF BUSINESS OBJECTIVES.....	148
DIRECTORS, SENIOR MANAGEMENT AND STAFF.....	164
INITIAL MANAGEMENT SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS	172
SHARE CAPITAL	177
FINANCIAL INFORMATION	
Management discussion and analysis of the trading record	179
Results of operations	184
Analysis for selected balance sheet items	197
Tax	200
Liquidity and capital resources	201
Disclosure under Rules 17.15 to 17.21 of the GEM Listing Rules	205
Dividend and dividend policy	205
Distributable reserves	206
Unaudited pro forma net tangible assets	207
No material adverse change	208

CONTENTS

	<i>Page</i>
UNDERWRITING	209
STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING	214
APPENDIX I — ACCOUNTANTS' REPORT	I-1
APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION.....	II-1
APPENDIX III — PROPERTY VALUATION.....	III-1
APPENDIX IV — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW.....	IV-1
APPENDIX V — STATUTORY AND GENERAL INFORMATION	V-1
APPENDIX VI — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION.....	VI-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide whether to invest in the Placing Shares.

There are always risks associated with investment in companies listed on GEM. Some of the particular risks in investing in the Placing Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide whether to invest in the Placing Shares.

BUSINESS OVERVIEW

We are one of the leading online game developers and operators in the PRC as proven by the awards and recognition we and our online games have received. Our portfolio consists of a range of MMORPGs catering to various types of players. Our strong online game development capability enables us to create our own games and to upgrade our existing games in a timely and efficient manner. In addition, our proprietary customer information system tracks players’ behaviour and purchasing patterns to allow us to design more appealing game contents. By employing our player-driven development philosophy and our integrated operation model, we have been able to swiftly adapt to trends in the online game industry, such as offering online games to players free of charge and then generating revenue from the sale of virtual items. With these strategies and capabilities, we believe we can effectively satisfy our customers’ demand and capture the market opportunities to further strengthen our position in the industry.

We currently offer five proprietary games, namely Eudemons Online, Conquer Online, Zero Online, Monster & Me and Era of Faith. We have achieved significant revenue growth, particularly over the past two years from the strong performance of Eudemons Online and Conquer Online, our flagship games and major revenue generators. We launched Eudemons Online in March 2006 and had over 325,000 PCU and 70,000 ACU in the same year. The PCU and ACU further increased to more than 496,000 and 243,000, respectively for the six months ended 30 June 2007. As to Conquer Online, even in its fourth year of operation, we still enjoyed approximately 34.3% and 34.5% increases in PCU and ACU, respectively for the six months ended 30 June 2007 compared to the same period in 2006. We launched Zero Online in late April 2007 and we had over 53,000 PCU and 21,000 ACU during the period from its launch to 30 June 2007.

We have achieved significant growth in revenue during the Active Business Pursuit Period:

- Eudemons Online had revenue of approximately RMB69.5 million and RMB185.0 million for the year ended 31 December 2006 and the six months ended 30 June 2007, respectively.
- Conquer Online had revenue of approximately RMB51.1 million and RMB61.9 million for the year ended 31 December 2006 and the six months ended 30 June 2007, representing approximately 58.1% and 156.5% increases compared to the same periods in 2005 and 2006, respectively.

SUMMARY

- We reported total revenue of approximately RMB122.1 million and RMB261.7 million for the year ended 31 December 2006 and the six months ended 30 June 2007, representing approximately 247.6% and 902.4% increases compared to the same periods in 2005 and 2006, respectively.

We currently have three games in our development pipeline, namely Happiness Q, Piao Miao Online and Heroes of Might and Magic Online. These new games offer different themes and gaming experience to attract various types of players. We expect to launch Happiness Q in 2007, Piao Miao Online and Heroes of Might and Magic Online in 2008.

We operate our online games under the FTP model which encourages more players to experience our games. Under this model, our revenue is generated by selling virtual items, such as virtual weapons, armours and spells. Through continuous improvements and upgrades to our games, we believe that we can enhance the popularity, increase the revenue and extend the life cycle of our games.

We currently have three distribution and payment channels, comprising (i) direct sales; (ii) pre-paid card sales through distributors; and (iii) cooperation channels. Our direct sales includes online payment systems and other direct sales channels. Online payment systems under direct sales accounted for approximately 52.2%, 60.5% and 67.3% of our total revenue for each of the two years ended 31 December 2006 and the six months ended 30 June 2007, respectively.

In the PRC market, our revenue grew over 454.0% and 23.1 times for the year ended 31 December 2006 and the six months ended 30 June 2007, respectively compared to the same periods in 2005 and 2006, respectively.

We also enjoy significant sales by introducing non-Chinese language games, such as English, French and Spanish versions. This multi-language approach has proven to be a success, demonstrated by the 102.1% and 203.5% increases in revenue generated from the non-Chinese language market in the year ended 31 December 2006 and the six months ended 30 June 2007 compared to the same periods in 2005 and 2006, respectively.

SUMMARY

COMPETITIVE STRENGTHS

We believe that our success in the online game market is primarily attributable to our following competitive strengths:

- Our strong game development capabilities
- Our player-driven development approach contributing to a proven portfolio and a well-planned game development pipeline
- Our proprietary customer information system to capture customer usage information
- Our geographically diversified player base
- Our well established and extensive distribution and payment channels
- Our experienced management team

OVERALL BUSINESS OBJECTIVES AND STRATEGIES

Our goal is to further strengthen our position as a leading online game developer and operator in the PRC. Leveraging on our experience and expertise in the online game industry, we believe that we are well equipped to enhance our market position in both the PRC and the overseas markets.

BUSINESS STRATEGIES

Our business strategies are set out as follow:

- Further strengthen our core game development capabilities
- Further enhance our integrated operation model
- Enrich our product portfolio and extend our game life cycles
- Expand our business through acquisition or cooperation with external parties
- Strengthen our corporate image and promote our games

SUMMARY

REASONS OF THE INTERNATIONAL PLACING AND THE USE OF PROCEEDS

We believe that the Listing will enhance our profile and expand our capital base for our future growth and development. The net proceeds from the International Placing, after deducting related underwriting fees and expenses payable by us, and assuming a Placing Price of HK\$12.18 per Share (being the mid-point of the stated range of the Placing Price between HK\$11.18 and HK\$13.18 per Share), are estimated to amount to approximately HK\$1,082.1 million (equivalent to approximately RMB1,060.5 million). We currently intend to apply such net proceeds as follows:

- as to approximately HK\$75.0 million to further strengthen our core game development capabilities
- as to approximately HK\$10.0 million to further enhance our integrated operation model
- as to approximately HK\$60.0 million to enrich our product portfolio and extend our game life cycles
- as to approximately HK\$682.3 million to expand our business through acquisition or cooperation with external parties
- as to approximately HK\$146.6 million to strengthen our corporate image and promote our games
- the remaining net proceeds of approximately HK\$108.2 million for our general working capital

Further details on use of proceeds are set out in “Statement of business objectives - Implementation plans” of this prospectus.

As at the Latest Practicable Date, we have not yet identified any suitable target for acquisition or cooperation with external parties.

In the event that the Placing Price is fixed at HK\$11.18 or HK\$13.18 (being the respective lowest and highest points of the indicative range of the Placing Price as stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds of the International Placing are approximately HK\$990.4 million (equivalent to approximately RMB970.6 million) and HK\$1,173.9 million (equivalent to approximately RMB1,150.4 million), respectively after deduction of all underwriting fees and expenses paid and payable by us. We currently intend to apply the aforesaid net proceeds in the same manner and in the same proportion as shown above. We will not receive any of the proceeds from the sale of shares by the Selling Shareholders in the International Placing.

In the event that the Over-allotment Option is exercised in full and assuming the Placing Price is HK\$12.18 (the mid-point price of the indicative price range as indicated in this prospectus), the Company will receive additional net proceeds of approximately HK\$189.4 million. We intend to apply the additional net proceeds for expanding our business through acquisition or cooperation with external parties.

In case that the net proceeds from the International Placing do not immediately apply for the aforesaid purposes, we currently intend that the amount be placed on short term deposits with authorised financial institutions and/or licensed banks in Hong Kong and/or the PRC.

SUMMARY

TRADING RECORD

The table below sets out a summary of our audited consolidated results during the Active Business Pursuit Period. The summary has been prepared on the basis that our current structure had been in existence throughout the period under review and is extracted from and has been prepared in accordance with the basis set out in Note 2 of the accountants' report in Appendix I to this prospectus.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Revenue - turnover	35,119	122,061	26,111	261,749
Cost of revenue	(4,669)	(11,179)	(3,253)	(14,665)
Gross profit	30,450	110,882	22,858	247,084
Other revenue and gains	4,950	5,673	1,715	1,330
Selling and marketing expenses	(25,450)	(13,838)	(5,531)	(30,345)
Administrative expenses	(16,906)	(22,960)	(9,199)	(19,418)
Development costs	(15,464)	(12,835)	(5,463)	(13,137)
Other operating expenses	(8,501)	(15,377)	(5,660)	(13,248)
Operating (loss)/profit	(30,921)	51,545	(1,280)	172,266
Loss on disposal of an associate	—	(2)	—	—
(Loss)/Profit before income tax	(30,921)	51,543	(1,280)	172,266
Income tax credit/(expense)	1,721	(8,558)	(1,500)	(18,179)
(Loss)/Profit for the year/period	<u>(29,200)</u>	<u>42,985</u>	<u>(2,780)</u>	<u>154,087</u>
Attributable to				
Equity holders of the Company	(29,171)	42,856	(2,780)	153,839
Minority interests	(29)	129	—	248
	<u>(29,200)</u>	<u>42,985</u>	<u>(2,780)</u>	<u>154,087</u>
Dividends	<u>—</u>	<u>—</u>	<u>—</u>	<u>79,069</u>
	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
(Loss)/Earnings per Share (Note)				
- attributable to the equity holders of the Company	<u>(7.29)</u>	<u>10.70</u>	<u>(0.69)</u>	<u>34.79</u>

Note: The calculation of (loss)/earnings per Share attributable to the equity holders of the Company is calculated based on consolidated (loss)/profit attributable to the equity holders of the Company of each of the Active Business Pursuit Period and the weighted average number of 400,407,860, 400,407,860, 400,407,860 and 442,220,015 Shares for the years ended 31 December 2005 and 2006 and the six months ended 30 June 2006 and 30 June 2007, respectively, assuming the Capitalisation Issue of the Company occurred at the beginning of the Active Business Pursuit Period.

SUMMARY

CONSOLIDATED BALANCE SHEETS

	At 31 December 2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	At 30 June 2007 <i>RMB'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13,738	23,211	34,815
Interest in an associate	430	—	—
Available-for-sale financial asset	4,000	4,000	4,000
Deferred tax assets	<u>6,046</u>	<u>201</u>	<u>54</u>
	<u>24,214</u>	<u>27,412</u>	<u>38,869</u>
Current assets			
Investment in trading securities	4,599	851	453
Trade and other receivables	9,953	40,354	45,513
Amounts due from related parties	5,530	11,357	3,293
Tax recoverable	—	—	3,051
Cash and cash equivalents	<u>15,277</u>	<u>66,322</u>	<u>206,406</u>
	<u>35,359</u>	<u>118,884</u>	<u>258,716</u>
Current liabilities			
Trade and other payables	17,103	37,910	54,145
Amounts due to related parties	2,156	725	669
Income tax payable	<u>345</u>	<u>2,954</u>	<u>14,112</u>
	<u>19,604</u>	<u>41,589</u>	<u>68,926</u>
Net current assets	<u>15,755</u>	<u>77,295</u>	<u>189,790</u>
Total assets less current liabilities/Net assets	<u><u>39,969</u></u>	<u><u>104,707</u></u>	<u><u>228,659</u></u>
EQUITY			
Share capital	1,650	1,650	3,506
Reserves	<u>38,319</u>	<u>102,928</u>	<u>224,776</u>
Equity attributable to the equity holders of the Company	39,969	104,578	228,282
Minority interests	<u>—</u>	<u>129</u>	<u>377</u>
Total equity	<u><u>39,969</u></u>	<u><u>104,707</u></u>	<u><u>228,659</u></u>

SUMMARY

SUMMARY OF OPERATING DATA

During the Active Business Pursuit Period, our revenues were mainly generated from Eudemons Online and Conquer Online which were launched in March 2006 and September 2003, respectively. We reported consistent growth in PCU and ACU for both Eudemons Online and Conquer Online. In addition, we launched Zero Online in late April 2007.

The following table sets out historical numbers of PCU and ACU for the periods indicated:

	For the three months ended									
	31 March 2005	30 June 2005	30 September 2005	31 December 2005	31 March 2006	30 June 2006	30 September 2006	31 December 2006	31 March 2007	30 June 2007
PCU										
Eudemons Online	—	—	—	—	26,000	50,000	128,000	325,000	438,000	496,000
Conquer Online	31,000	34,000	40,000	47,000	60,000	66,000	74,000	82,000	85,000	89,000
Zero Online	—	—	—	—	—	—	—	—	—	53,000
ACU										
Eudemons Online	—	—	—	—	17,000	31,000	56,000	140,000	213,000	274,000
Conquer Online	23,000	24,000	29,000	33,000	43,000	50,000	54,000	59,000	61,000	64,000
Zero Online	—	—	—	—	—	—	—	—	—	21,000

STRUCTURE CONTRACTS

PRC law currently limits foreign ownership of companies that provide value-added telecommunications services in the PRC, which includes our online game business. Accordingly, we operate our online game business through NetDragon (Fujian) which is owned as to approximately 98.9% by the Founding Shareholders, 0.6% by Chen Minlin and 0.5% by Lin Yun, all of whom are PRC nationals. We rely on the ICP license and other requisite licenses held by NetDragon (Fujian) to operate our online game business in the PRC. TQ Digital has entered into the Structure Contracts with NetDragon (Fujian) and its equity holders that allow us to recognise and receive the economic benefits of the business and operations of NetDragon (Fujian). The Structure Contracts enable TQ Digital to control over and to acquire the equity interests and/or assets of NetDragon (Fujian) when permitted by the relevant PRC laws and regulations. The Structure Contracts, taken as a whole, permit the financial results of NetDragon (Fujian) to be consolidated with those of the Company as if it were a subsidiary of the Company and the economic benefit of its businesses to flow to the Company and TQ Digital. Details of the Structure Contracts are set out in the section headed “Structure Contracts” of this prospectus.

We have been advised by our PRC legal adviser, Dacheng Law Offices, that the Structure Contracts are in compliance with current PRC laws, rules and regulations. However, there are risks involved with the operation of our online game business under the Structure Contracts, particularly in

SUMMARY

light of the recent MII Notice issued in July 2006, imposing a more stringent regulatory environment on foreign investment in value-added telecommunication business, which introduces an increased risk of the contractual arrangements being challenged by the relevant PRC regulatory authorities. If the contractual arrangements between TQ Digital and NetDragon (Fujian) and its equity holders are adjudicated to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- imposing economic penalties and/or confiscating the proceeds generated from the operation under the contractual arrangements;
- discontinuing or restricting operations of TQ Digital and/or NetDragon (Fujian);
- imposing conditions or requirements with which TQ Digital or NetDragon (Fujian) may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could be harmful to our business; and
- revocation of business licenses and/or the licenses of TQ Digital and/or NetDragon (Fujian).

Any of these actions will have a material adverse effect on our business, financial condition and results of operations. Details of such risk factor are set out in “Risk factors - Risks relating to our contractual arrangements - There is no assurance that the contractual arrangements between TQ Digital and NetDragon (Fujian) are in compliance with existing or future PRC laws and regulations” of this prospectus.

SUMMARY

SHAREHOLDING STRUCTURE AND MORATORIUM

Immediately upon the completion of the International Placing and the Capitalisation Issue, but without taking into account (i) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme and the Over-allotment Option; or (ii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the section headed “Statutory and general information - Further information about the Company - Written resolutions of all the Shareholders passed on 15 October 2007” in Appendix V to this prospectus, the following persons and entities are considered to be the Initial Management Shareholders or Significant Shareholders for the purpose of the GEM Listing Rules and are thus subject to the following restrictions on disposal:

Name	Date on which interest in the Group was first acquired	International Placing and the Capitalisation Issue	Approximate	Approximate	Approximate total cost of investment per 1,000,000 Shares HK\$	Approximate cost of investment per 1,000,000 Shares HK\$	Moratorium period within the meaning of the GEM Listing Rules (as from the Listing Date)	
			Number of Shares held immediately before completion of the	Number of Shares held immediately before completion of the				
			International	International				
			Issue (%)	Issue (%)				
DJM Holding Ltd. (Note 1)	30 March 2004	18,740,260	42.17	183,402,600	33.96	1,430,540	7,800	12 months
Liu Dejian (Note 1)	25 May 1999	N/A	40.23	N/A	32.40	10,292,788	58,827	12 months
Zheng Hui (Notes 1 & 2)	25 May 1999	N/A	10.33	N/A	8.14	1,388,514	31,604	12 months
Fitter Property Inc. (Note 2)	1 March 2007	3,729,872	8.39	35,498,720	6.57	276,890	7,800	12 months
Richmedia Holdings Limited (Note 3)	15 December 2004	2,684,480	6.04	26,344,800	4.88	205,489	7,800	12 months
Liu Luyuan (Note 3)	25 May 1999	N/A	6.04	N/A	4.88	519,530	19,720	12 months
Eagle World International Inc. (Note 4)	21 June 2007	3,371,292	7.59	33,712,920	6.24	262,961	7,800	12 months
Flowson Company Limited (Note 4)	21 June 2007	N/A	7.59	N/A	6.24	262,961	7,800	12 months
Cristionna Holdings Limited (Note 5)	30 March 2004	1,400,000	3.15	13,000,000	2.41	101,400	7,800	12 months
Chen Hongzhan (Note 5)	30 March 2004	N/A	3.12	N/A	2.39	100,386	7,800	12 months
Liu Ming (Note 5)	25 May 1999	N/A	0.03	N/A	0.02	1,014	7,800	6 months
Wu Chak Man (Note 6)	30 March 2004	240,000	0.54	1,900,000	0.35	14,820	7,800	6 months
Growing Up Capital Inc. (Note 7)	21 June 2007	223,400	0.50	1,434,000	0.27	11,185	7,800	6 months
Wu Jialiang (Note 7)	21 June 2007	N/A	0.50	N/A	0.27	11,185	7,800	6 months

SUMMARY

Name	Date on which interest in the Group was first acquired	International Placing and the Capitalisation Issue	Approximate Number of Shares held immediately before completion of the	Approximate percentage of shareholding immediately before completion of the	Number of Shares held immediately after completion of the	Approximate percentage of shareholding immediately after completion of the	Approximate total cost of investment per 1,000,000 Shares HK\$	Moratorium period within the meaning of the GEM Listing Rules (as from the Listing Date)
			International Placing and the Capitalisation Issue	International Placing and the Capitalisation Issue	International Placing and the Capitalisation Issue	International Placing and the Capitalisation Issue		
			(%)	(%)		(%)	HK\$	HK\$
IDG Group (<i>Note 8</i>)	30 January 2004	7,833,332	17.63	78,333,320	14.51	56,270,500	718,347	12 months
Happy Sunshine Limited (<i>Note 9</i>)	10 January 2007	2,000,000	4.50	20,000,000	3.70	32,370,000	1,618,500	12 months
Chee Swee Fu (<i>Note 9</i>)	10 January 2007	N/A	4.50	N/A	3.70	32,370,000	1,618,500	12 months

Notes:

1. DJM Holding Ltd. is an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and is owned as to approximately 95.4% and 4.6%, respectively, by each of Liu Dejian (brother of Liu Luyuan and Liu Ming) and Zheng Hui, both being executive Directors. All of DJM Holding Ltd., Liu Dejian and Zheng Hui are regarded as Initial Management Shareholders under the GEM Listing Rules.
2. Fitter Property Inc. is an investment holding company incorporated on 13 April 2006 in the BVI with limited liability and is owned as to 100% by Zheng Hui, an executive Director. Both Fitter Property Inc. and Zheng Hui are regarded as Initial Management Shareholders under the GEM Listing Rules.
3. Richmedia Holdings Limited is an investment holding company incorporated on 10 May 2004 in the BVI with limited liability and is owned as to 100% by Liu Luyuan (brother of Liu Dejian and Liu Ming), an executive Director. Both Richmedia Holdings Limited and Liu Luyuan are regarded as Initial Management Shareholders under the GEM Listing Rules.
4. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and is owned as to 100% by Flowson Company Limited, an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and owned as to 100% by Zheng Hui. Zheng Hui owns the voting rights in respect of the shares in Flowson Company Limited. Flowson Company Limited holds its indirect interest in the Shares as trustee for the benefit of the employees of the Group under a discretionary trust. Under the terms of the trust, Zheng Hui has power to direct the exercise of the voting rights in respect of the trust's shares in Eagle World International Inc.. As Eagle World International Inc. is interested in approximately 6.24% of the Company, Zheng Hui has power to direct the exercise of the voting powers in respect of the Shares held by Eagle World International Inc. Both Eagle World International Inc. and Flowson Company Limited are regarded as Initial Management Shareholders under the GEM Listing Rules.
5. Cristionna Holdings Limited is an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and is owned as to 99% by Chen Hongzhan, an executive Director, and as to 1% by Liu Ming (brother of Liu Dejian and Liu Luyuan), a director of NetDragon (USA). All of Cristionna Holdings Limited, Chen Hongzhan and Liu Ming are regarded as Initial Management Shareholders under the GEM Listing Rules.
6. Wu Chak Man is a member of our senior management and an Initial Management Shareholder under the GEM Listing Rules.

SUMMARY

7. Growing Up Capital Inc. is an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and is owned as to 100% by Wu Jialiang, a member of our senior management. Both Growing Up Capital Inc. and Wu Jialiang are regarded as Initial Management Shareholders under the GEM Listing Rules.
8. The IDG Group has nominated Lin Dongliang, a non-executive Director, to the Board and is regarded as an Initial Management Shareholder under the GEM Listing Rules. Please refer to “Shareholding and Corporate Structure - Information on the investors” for details of the IDG Group.
9. Happy Sunshine Limited has nominated Zhu Xinkun, a non-executive Director, to the Board. Happy Sunshine Limited is an investment holding company incorporated on 15 April 2005 in the BVI with limited liability and is owned as to 100% by Chee Swee Fu. Both Happy Sunshine Limited and Chee Swee Fu are regarded as Initial Management Shareholders under the GEM Listing Rules.

UNDERTAKINGS

Each of the Initial Management Shareholders (other than Wu Chak Man, Liu Ming, Growing Up Capital Inc. and Wu Jialiang) has undertaken to the Company, Bear Stearns (for itself and on behalf of the Underwriters) and the Stock Exchange that for a period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

- (a) save as provided in Rule 13.18 of the GEM Listing Rules, he/it shall not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his/its direct or indirect interest in his/its relevant securities as defined in rule 13.15(4) of the GEM Listing Rules (the “Relevant Securities”) or otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of his/its interests;
- (b) he/it shall place in escrow, with an escrow agent acceptable to the Stock Exchange, his/its Relevant Securities on terms acceptable to the Stock Exchange;
- (c) in the event that he/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant period set out above, he/it must inform us and Bear Stearns immediately thereafter, disclosing the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made; and
- (d) having pledged or charged any of his/its interest in the Relevant Securities under sub-paragraph (c) above, he/it must inform us and Bear Stearns immediately in the event he/it becomes aware that the pledgee(s) or chargee(s) has/have disposed of or intend(s) to dispose of such interest and of the number of the Relevant Securities affected.

SUMMARY

Each of the Other Investors, Wu Chak Man, Liu Ming, Growing Up Capital Inc. and Wu Jialiang has undertaken to us, Bear Stearns (for itself and on behalf of the Underwriters) and the Stock Exchange that for a period commencing on the date by reference to which disclosure of its shareholding in us is made in this prospectus and ending on the date which is six months from the Listing Date:

- (a) he/it shall place in escrow, with an escrow agent acceptable to the Stock Exchange, his/its Relevant Securities on terms acceptable to the Stock Exchange;
- (b) save as provided in Rule 13.18 of the GEM Listing Rules, he/it shall not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his/its direct or indirect interest in the Relevant Securities or otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of his/its interests;
- (c) in the event that he/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant period set out above, he/it must inform us and Bear Stearns immediately thereafter, disclosing the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made; and
- (d) having pledged or charged any of his/its interest in the Relevant Securities under sub-paragraph (c) above, he/it must inform us and Bear Stearns immediately in the event he/it becomes aware that the pledgee(s) or chargee(s) has/have disposed of or intend(s) to dispose of such interest and of the number of the Relevant Securities affected.

STATISTICS OF THE INTERNATIONAL PLACING

	Based on indicative Placing Price of HK\$11.18	Based on indicative Placing Price of HK\$13.18
Market capitalisation of the Shares ⁽²⁾	HK\$6,037 million	HK\$7,117 million
Pro forma net tangible assets per Share ⁽³⁾	HK\$2.25	HK\$2.59

Notes:

1. All the statistical data in the table above are calculated based on the assumption that the Over-allotment Option is not exercised.
2. The calculation of market capitalisation is based on the estimated 540,007,860 Shares issued upon completion of the International Placing.
3. The pro forma net tangible assets per Share is calculated after making the adjustments as set out under the paragraph headed "Unaudited pro forma net tangible assets" in Appendix II to this prospectus and is based on 540,007,860 Shares expected to be in issue following the International Placing.

SUMMARY

RISK FACTORS

We are of the opinion that there are a number of risk factors associated with the operation and performance of our businesses. The risks can be categorised into (i) risks relating to our contractual arrangements; (ii) risks relating to our business; (iii) risks relating to the industry in which we operate; (iv) risks relating to the operations in the PRC; (v) risks relating to the International Placing; and (vi) risks relating to the statements made in this prospectus.

Risks relating to our contractual arrangements:

- There is no assurance that the contractual arrangements between TQ Digital and NetDragon (Fujian) are in compliance with existing or future PRC laws and regulations
- We depend upon contractual arrangements with NetDragon (Fujian) in conducting our online game operations and receiving payments through NetDragon (Fujian), which may not be as effective in providing operational control as direct ownership
- The pricing arrangement under the contractual arrangements among our members may be challenged by tax authorities
- We depend on dividends and other distributions on equity paid by our members and there may be restrictions on our dividend distributions
- The controlling shareholders of NetDragon (Fujian) have potential conflicts of interests with us which may adversely affect our business
- We rely on the licenses held by NetDragon (Fujian) and the interruption of our relationship with NetDragon (Fujian) could adversely affect our business

Risks relating to our business:

- Our revenues are mainly generated from two online games and any significant adverse impacts on these two games could materially affect our business
- The continuous development of our new games and enhancement of existing games may not be successful
- We have incurred net losses in the past and may experience earnings declines or net losses in the future
- We may not be able to sustain our high profit margin
- We have a limited operating history for the evaluation of our business and prospects
- Players' acceptance of the FTP model may change in the future

SUMMARY

- We may not be able to successfully implement our business strategies
- Our business depends on our key executives and employees and if we lose their services, our business may be seriously harmed
- Our online games may contain undetected programming errors or other defects and encounter external interruptions
- We rely on third party service providers for our operation
- We rely on our major suppliers for our operation
- Our technology infrastructure may experience unexpected network interruption or inadequacy or security breaches
- We rely heavily on our direct sales as our key distribution and payment channel and any disruption may adversely affect our operation
- The underdeveloped online payment systems in the PRC may affect our operation
- We cannot assure that we will continue to enjoy preferential tax treatments or financial incentives in the future and changes in the PRC laws or policies may increase the tax burdens of us or our investors
- Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability
- We do not have any business liability or disruption insurance coverage for our operations in the PRC and the overseas markets
- Our diversified player base exposes us to potential regulatory and litigation risks in different jurisdictions
- Our regulatory activities over our online games may expose ourselves to potential claims from our players
- The relevant PRC authority may challenge the filings of our PRC domestically developed online games with the MOC
- It is uncertain that we will continuously be granted the necessary licences and permits or be able to fulfil other regulatory requirements for the operation of online games

SUMMARY

- If some of our online game business activities are deemed to be in violation of law or subject to additional license, permits, approvals, filings or requirements in the future, we may be subject to penalties or requested to modify our online game operation model, which could have a material adverse effect on our business and results of operations
- We may be liable to third parties for information improperly displayed on, retrieved from or linked to our websites or for information delivered or shared through our services
- We may be held liable for inappropriate online communications made among our players
- The information collected from our players may infringe on their privacy and may not be accurate
- We cannot be certain that our operation does not or will not infringe any patents, valid copyrights or other intellectual property rights held by third parties
- Unauthorised use of our intellectual property may adversely affect our business and reputation
- We may not be able to pay dividends in accordance with our proposed dividend policy
- Illegal game servers could harm our business and reputation

Risks relating to the industry in which we operate:

- We may be adversely affected by uncertainties and changes in the PRC laws and regulations of Internet and value-added telecommunications
- The online game market is increasingly competitive which may affect our position in the market
- The online game industry is subject to rapid technological changes which may render our games obsolete or unattractive to our players
- The penetration rate for personal computers is low and the cost of Internet access is high in the PRC and these factors may affect the growth of our player base
- Control on Internet access and the distribution of news, information or other content on Internet in the PRC may adversely affect our business
- Restrictions on import and export of technologies may adversely affect our business operations
- Control on issuance of Internet cafe licenses may adversely affect our business and results of operations
- The recently enacted PRC law regulating the playing time and players' age of online games may detrimentally affect our business and operations

SUMMARY

Risks relating to the operations in the PRC:

- Changes in economic, social and legal developments in the PRC may adversely affect our business
- There is no assurance that we will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange
- Fluctuations in the exchange rate of currencies may adversely affect our business
- Our operations are subject to the uncertainty associated with the legal system in the PRC, which could limit the legal protection available to potential investors
- There may be difficulties in seeking recognition and enforcement of foreign judgements or arbitral awards in the PRC
- Changes in the PRC government policies in foreign investment in the PRC may adversely affect our business and results of operations
- PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or us to penalties and otherwise adversely affect us
- Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions
- A recurrence of SARS or an outbreak of other epidemics, such as avian flu, could adversely affect the national and regional economies in the PRC and our prospects

Risks relating to the International Placing:

- An active trading market for the Shares may fail to develop or be sustained, which could have a material adverse effect on the liquidity and market price of the Shares
- As the Placing Price is substantially higher than the net tangible book value per Share, you will incur immediate and substantial dilution
- You may experience further dilution if we issue additional Shares in the future

SUMMARY

Risks relating to the statements made in this prospectus:

- We cannot guarantee the accuracy of facts and other statistics with respect to certain information contained in this prospectus extracted from government official sources
- Forward-looking statements contained in this prospectus may prove inaccurate and therefore investors should not place undue reliance on such information
- Sale or perceived sale of substantial amounts of Shares in the public market after the International Placing could materially adversely affect the prevailing market price of our Shares
- Investors should read the entire prospectus carefully and we strongly caution investors and not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings:

“Active Business Pursuit Period”	the two years ended 31 December 2006 and the six months ended 30 June 2007
“Articles”	the articles of association of the Company adopted on 15 October 2007, the terms of which are summarised in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Bear Stearns”	Bear Stearns Asia Limited, a licensed corporation under the SFO for regulated activities of type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management), being the Bookrunner, Global Coordinator, one of the Joint Lead Managers and the Joint Sponsors
“Beso”	Beso Biological Research Centre, Inc., a corporation formed in the State of Kansas, USA, whose principal businesses are distribution and marketing of the products of Fuzhou 851 and whose equity interest in its capital stock is owned by Yang Zhenhua, being the mother of Liu Dejian, an executive Director and chairman of the Company and Beso is therefore our connected person under the GEM Listing Rules
“Board”	the board of Directors
“Bookrunner” or “Global Coordinator”	Bear Stearns
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the capitalisation issue referred to in the paragraph headed “Statutory and general information - Further information about the Company - Written resolutions of all the Shareholders passed on 15 October 2007” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China” or “PRC”	People’s Republic of China which for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

DEFINITIONS

“ChinaJoy”	China Digital Entertainment Expo and Conference, an annual exhibition held in the PRC for the digital interactive entertainment industry
“CNNIC”	China Internet Network Information Center (中國互聯網絡信息中心), an Independent Third Party
“Companies Law”	the Companies Law (2004 Revision) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”	NetDragon Websoft Inc., a company incorporated in the Cayman Islands with limited liability on 29 July 2004
“connected persons”	means a director, chief executive, substantial shareholder or management shareholder of a company or an associate of any of them, as more particularly defined under the GEM Listing Rules
“Controlling Shareholders”	our controlling shareholders (having the meaning ascribed thereto in the GEM Listing Rules), being DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, the Founding Shareholders, Eagle World International Inc. and Flowson Company Limited
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervisor and regulation of the PRC securities market
“Director(s)”	our director(s)
“E3”	The Electronic Entertainment Expo, an annual trade show held in the U.S. for the computer and video games industry open to game industry professionals, journalists, and guests of exhibitors
“First Shanghai Capital”	First Shanghai Capital Limited, a licensed corporation under the SFO for regulated activities of type 6 (advising on corporate finance), being one of the Joint Sponsors to us in respect of the Listing
“First Shanghai Securities”	First Shanghai Securities Limited, a corporation licensed under the SFO to perform types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities, advising on corporate finance and asset management), being one of the Joint Lead Managers

DEFINITIONS

“Founding Shareholders”	Liu Dejian, Zheng Hui and Liu Luyuan, being our founding shareholders
“FTP model”	free-to-play business model, of which revenue is generated not by selling playtime, but by selling virtual items
“Fuzhou 851”	Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (福州楊振華 851 生物工程技術研究開發有限公司), a sino-foreign equity joint venture enterprise established in the PRC, whose principal businesses are development and manufacturing of health products for consumers in the PRC and the overseas and whose equity interest in the registered capital is owned as to approximately 46.26%, 26.87% and 26.87% by DJM Holding Ltd., a substantial shareholder of the Company, Liu Dejian, an executive Director and Yang Zhenhua, the mother of Liu Dejian, respectively and Fuzhou 851 is therefore our connected person under the GEM Listing Rule
“Fuzhou Tianliang”	Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司), a company established in the PRC with limited liability on 19 April 2006, which is owned as to 30%, 30% and 40% by Chen Hongzhan, an executive Director, Zheng Hui, an executive Director and Wu Jialiang, one of our senior management, respectively and Fuzhou Tianliang is therefore our connected person under the GEM Listing Rules
“GAPP”	The PRC General Administration of Press and Publication (國家新聞出版總署)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM (as amended from time to time)
“GEM website”	http://www.hkgem.com , being the Internet website operated by the Stock Exchange for the purposes of GEM
“Group”, “we”, “us” or “our”	our Company and our directly or indirectly wholly-owned subsidiaries (including NetDragon (BVI), TQ Digital, NetDragon (USA), NetDragon (HK)), and in the context of describing our operations, also include our incorporated affiliates in the PRC, including NetDragon (Fujian) and NetDragon (Shanghai)
“HKFRS”	Hong Kong Financial Reporting Standards
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the PRC
“ICP license”	a value-added telecommunications business operation license with a service scope of information services
“IDG Group”	IDG Technology Venture Investments, L.P., IDG Technology Venture Investments III, 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 our investors before the Listing. Details of the IDG Group are set out in “Shareholding and Corporate Structure - Information on the investors” in this prospectus
“Independent Third Party(ies)”	party(ies) which is (are) independent from and not connected with any of the Directors, chief executive, substantial shareholders or management shareholders of our Company or any of its subsidiaries or any of their respective associates
“Initial Management Shareholder(s)”	the initial management shareholders (having the meaning ascribed thereto in the GEM Listing Rules) of our Company, being DJM Holding Ltd., Liu Dejian, Zheng Hui, Fitter Property Inc., Richmedia Holdings Limited, Liu Luyuan, Eagle World International Inc., Flowson Company Limited, Cristionna Holdings Limited, Chen Hongzhan, Liu Ming, Wu Chak Man, Growing Up Capital Inc., Wu Jialiang, IDG Group, Happy Sunshine Limited and Chee Swee Fu
“Internal Revenue Service”	The Internal Revenue Service of the Department of the Treasury of the government of the United States of America
“International Placing”	the conditional placing of the Placing Shares at the Placing Price by the Underwriters with professional, institutional and private investors pursuant and subject to the terms and conditions set out in the section headed “Structure and conditions of the International Placing” in this prospectus
“Internet Culture Regulations”	Interim Regulations on the Administration of Internet Culture (互聯網文化管理暫行規定) implemented on 1 July 2003 and amended on 1 July 2004
“Joint Lead Managers”	Bear Stearns and First Shanghai Securities
“Joint Sponsors”	Bear Stearns and First Shanghai Capital
“Latest Practicable Date”	18 October 2007, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus prior to the printing of this prospectus

DEFINITIONS

“Leitingwanjun”	Beijing Lei Ting Wan Jun Network Technology Limited (北京雷霆萬鈞網絡科技有限責任公司), the operating company of Tom.com, being an Independent Third Party and one of our cooperation partners
“Listing”	the listing of our Shares on the GEM
“Listing Date”	the date on which dealings in the Shares first commence on GEM
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM, which excludes the options market and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Management Committee”	the management committee established and constituted by the provisions of the Structure Contracts which is responsible for, among other things, overseeing the business and operations of NetDragon (Fujian)
“Management Shareholder”	has the meaning ascribed to it in the GEM Listing Rules
“MII”	the PRC Ministry of Information Industry (中國信息產業部)
“MII Notice”	Notice on Strengthening Management of Foreign Investment in Operating Value-Added Telecommunication Services (關於加強外商投資經營增值電信業務管理的通知) issued by MII in July 2006
“MOC”	the PRC Ministry of Culture (中國文化部)
“NCAC”	the PRC National Copyright Administration (國家版權局)
“NetDragon (BVI)”	NetDragon Websoft Inc., a company established in BVI on 8 January 2003, which is wholly and beneficially owned by the Company
“NetDragon (Fujian)”	Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) formerly known as Fuzhou NetDragon Websoft Co., Ltd. (福州網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999, and through the Structure Contracts, one of our members
“NetDragon (HK)”	NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司), a company incorporated in Hong Kong with limited liability on 28 June 2007 which is wholly and beneficially owned by NetDragon (BVI)

DEFINITIONS

“NetDragon (Shanghai)”	Shanghai Tiankun Digital Technology Ltd. (上海天坤數碼科技有限公司), a company established in the PRC with limited liability on 20 December 2004, and through the Structure Contracts entered into by its holding company, NetDragon (Fujian), one of our members
“NetDragon (USA)”	NetDragon Websoft Inc., a company incorporated in the State of California, USA, on 10 July 2003, which is wholly and beneficially owned by NetDragon (BVI)
“Ogilvy”	Effort Ogilvy (Fujian) Advertising Co. Ltd. (奧華奧美(福建)廣告有限公司), an Independent Third Party and our marketing consultant for promoting our corporate image and online games in the PRC
“Other Investors”	collectively, SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, Giant East Investments Limited, China Venture Capital Company Limited, SACE Investments Limited and Aura Investment Holdings Limited. Details of the Other Investors are set out in “Shareholding and Corporate Structure - Information on the investors” to this prospectus
“Over-allotment Option”	the option to be granted by us to the Underwriters, exercisable by Bear Stearns (for itself and on behalf of the Underwriters) at any time within 30 days from the Listing Date, to require us to allot and issue up to an aggregate of 16,200,000 additional new Shares at the Placing Price to cover over-allocations in the International Placing
“PayPal”	PayPal, an eBay Company and an Independent Third Party, enables individual or business with an email address to send and receive payments online
“Placing Price”	the final price per Placing Share which will not be more than HK\$13.18 per Share and is currently expected to be not less than HK\$11.18 per Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee), such price to be fixed at or before the Price Determination Date
“Placing Shares”	the Shares being initially offered for subscription at the Placing Price pursuant to the International Placing as described in the section headed “Structure and conditions of the International Placing” in this prospectus
“Price Determination Agreement”	the agreement to be entered into between us and Bear Stearns (for itself and on behalf of the Underwriters) to record and fix the final Placing Price

DEFINITIONS

“Price Determination Date”	on or before Friday, 26 October 2007, by which time the Placing Price will be fixed by us and Bear Stearns (for itself and on behalf of the Underwriters) but in any event shall not be later than Monday, 29 October 2007
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the PRC State Administration for Foreign Exchange (國家外匯管理局)
“SAIC”	the PRC State Administration for Industry and Commerce (國家工商行政管理總局)
“Sale Shares”	the 12,400,000 Shares, being offered for sales by the Selling Shareholders at the Placing Price, details of which are set out in “Other Information” in Appendix V to this prospectus
“Selling Shareholders”	DJM Holding Ltd., SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, Fitter Property Inc., Cristionna Holdings Limited, Growing Up Capital Inc., Richmedia Holdings Limited, Wu Chak Man, Lilywhites Venture Limited, Maincorp Worldwide Ltd., Main Shine Company Limited, Peony Glory Holding Ltd., Chen Feng and Kellyton International Limited
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong as amended and supplemented from time to time
“Shanda”	Shanda Interactive Entertainment Ltd., an online game operator, the shares of which are listed on Nasdaq in the USA and which is an Independent Third Party and one of our distribution partners
“Shareholders”	holders of the Shares
“Share Option Scheme”	the share option scheme which we conditionally approved and adopted on 15 October 2007, its major terms are set out in the section headed “Share Option Scheme” in Appendix V to this prospectus
“Shares”	shares with nominal value of US\$0.01 each in the share capital of the Company
“Structure Contracts”	certain contracts entered into among our subsidiaries and affiliates, particulars of which are set out in “Structure Contracts” in this prospectus
“Significant Shareholder(s)”	has the meaning ascribed to it in the GEM Listing Rules

DEFINITIONS

“State Council”	State Council of the PRC (中國國務院), the highest governmental body of the PRC in charge of the formulation and implementation of state policies
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it in the GEM Listing Rules, particulars of which are set out in “Initial Management Shareholders, Substantial Shareholders and Significant Shareholders - Substantial Shareholders” in this prospectus
“Tencent”	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), an Internet services provider, an Independent Third Party and one of our distribution partners
“TQ Digital”	Fujian TQ Digital Inc (福建天晴數碼有限公司), formerly known as Fujian TQ Digital Ind (福建天晴數碼有限公司) and Fuzhou TQ Digital Ind (福州天晴數碼有限公司), a wholly foreign owned enterprise established in the PRC on 28 February 2003, which is wholly and beneficially owned by NetDragon (BVI)
“Ubisoft”	Ubisoft Entertainment SA or its affiliate, an Independent Third Party and an international producer, publisher and distributor of interactive entertainment
“Underwriters”	the expected underwriters of the International Placing under the paragraph headed “Underwriters” in the section headed “Underwriting” in this prospectus
“Underwriting Agreement”	the conditional international purchase agreement expected to be entered into between, among others, our Company, the Global Coordinator, and the Selling Shareholders, particulars of which are set forth in the section headed “Underwriting” in this prospectus
“US\$”	United States dollars, the lawful currency of the USA
“USA” or “U.S.”	the United States of America
“WTO”	World Trade Organisation
“Xunlei”	Shenzhen Xunlei Online Technology Company Limited (深圳市迅雷網絡技術有限公司), an Independent Third Party and one of our cooperation partners
“sq. ft.” and “sq. m.”	square feet and square metres

DEFINITIONS

“sq. km.”	square kilometre(s)
“%” and “percent”	percentage
“2D”, “2.5D” and “3D”	2 dimensional, 2.5 dimensional and 3 dimensional, respectively

- 1. For the purpose of this prospectus, unless otherwise indicated, conversion of US dollars into Hong Kong dollars is calculated at the conversion rate of US\$1.00 to HK\$7.80 and conversion of RMB into Hong Kong dollars is calculated at the conversion rate of HK\$1.00 to RMB0.98. These conversion rates are for purposes of illustration only and do not constitute a representation that any amounts have been, could have been, or may be, converted at these or any other rates or at all.*
- 2. In this prospectus, the names of persons, entities or enterprises in the PRC have been included in this prospectus in both the Chinese and English languages and the English names of these persons, entities or enterprises are only English translation of their respective official Chinese names. In the event of any inconsistency between the Chinese name and their respective English translation, the Chinese names shall prevail.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this prospectus in connection with us and our business. Some of these special terms and their definitions may not correspond to the standard definitions and industry usages:

“ACU”	average concurrent users or players, that is the average daily data over a particular period of time derived from the number of users logged on to one of our launched games at 14-minute intervals
“broadband”	a service or connection allowing a large amount of information to be transmitted, which is generally defined as bandwidth of at least 1.5 Mbps
“cartridge”	detachable sub-unit that is held within its own container
“closed beta testing”	a stage during the development of a game whereas the game is released to a select group of individuals for a user test whereas players under the closed beta testing will report any technical problems that they found and sometimes minor features they would like to see in the final version
“computer network”	two or more computers connected together using a telecommunication system for the purpose of communicating and sharing resources
“download”	to transfer (data or programmes) from a server or host computer to one’s own computer or device
“ERP system”	enterprise resource planning system, an accounting-oriented information system for identifying and planning the enterprise resources needed to take, make, distribute, and account for customer orders
“game console”	home video game system
“ICP”	Internet content provider
“Internet”	a global network of interconnected, separately administered public and private computer networks that uses the Transmission Control Protocol/Internet Protocol for communications
“Internet Protocol”	an agreed set of rules, procedures and formats by which information is exchanged over the Internet
“IT”	information technology, the development, installation, and implementation of computer systems and applications

GLOSSARY OF TECHNICAL TERMS

“launch”	the commercially official launch of an online game after the closed beta testing under the FTP model or after the open beta testing under the pay-for-play model
“Mbps”	millions of bits per second or megabits per second
“MMOG”	massively multiplayer online game, a form of computer game that involves a large number of players playing a game online simultaneously
“MMORPG”	massively multiplayer online role-playing game, in which many players participate in the same role-playing game simultaneously
“open beta testing”	a stage during the development of a game whereas the game is released to a community group, usually the general public, for a user test whereas players under the open beta testing will report any technical problems that they found and sometimes minor features they would like to see in the final version
“PC”	personal computer
“PCU”	peak concurrent users or players, that is the highest data over a particular period of time derived from the number of users logged on to our launched games at 14-minutes intervals
“server”	a computer system that provides services to other computing systems over a computer network
“subscription”	sells periodic (monthly or yearly) use or access of a product or service
“Transmission Control Protocol”	an agreed set of rules, procedures and formats used along with the Internet Protocol to transmit information over the Internet
“turn-based game”	a turn-based game, also known as turn-based strategic game, is a game where the game flow is partitioned into well-defined and visible parts, called turns or rounds
“virtual items”	the virtual items in the game we offer to players to enhance the strength of the character in the game or to provide additional features to the games, such as virtual weapons, armours and spells

RISK FACTORS

Prospective investors of the Placing Shares should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with investment in the Company before making any investment decision in relation to the International Placing. The business, financial condition or results of our operations could be materially affected by any of these risks.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

There is no assurance that the contractual arrangements between TQ Digital and NetDragon (Fujian) are in compliance with existing or future PRC laws and regulations

We and our PRC legal adviser, Dacheng Law Offices, believe that the Structure Contracts and such other contractual arrangements between TQ Digital and NetDragon (Fujian) are in compliance with the existing PRC laws and regulations. However, there can be no assurance that these contractual arrangements will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing PRC laws and regulations or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that such contractual arrangements would be deemed to be in compliance of the PRC laws and regulations.

PRC regulations currently limit foreign ownership in PRC companies that provide Internet content services, which include operating online games, to 50%. In addition, foreign and foreign invested enterprises are currently not eligible to apply for all the required licenses for operating online games in the PRC. We are a limited liability company incorporated in the Cayman Islands and we conduct our operations mainly in the PRC through TQ Digital, our indirectly wholly owned subsidiary. We and TQ Digital are foreign or foreign invested enterprises under PRC laws and accordingly are ineligible to apply for the relevant licenses to operate online games. In order to comply with foreign ownership restrictions, our online game business in the PRC are operated through NetDragon (Fujian). NetDragon (Fujian) holds the licenses and approvals that are required to operate our online game business and TQ Digital owns the expertise and the technologies for our business. TQ Digital has entered into the Structure Contracts with NetDragon (Fujian) and its equity holders. Details of the Structure Contracts are set out in the section headed “Structure Contracts” of this prospectus. As a result of these contractual arrangements, TQ Digital is considered the primary beneficiary of NetDragon (Fujian) and accordingly we consolidate NetDragon (Fujian)’s results in our financial statements.

In addition, the MII Notice issued in July 2006 requires that ICP license holders or their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. The MII Notice further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all the value-added telecommunication service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. The MII Notice prohibits ICP license holders from leasing, transferring or selling its telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications business in the PRC. The MII Notice has imposed a more stringent regulatory environment on foreign

RISK FACTORS

investment in value-added telecommunication business, which introduces an increased risk of the contractual arrangements being challenged by the relevant PRC regulatory authorities. Therefore, we and our PRC legal advisor, Dacheng Law Offices, cannot rule out the possibility that the relevant PRC regulatory authorities may require that we unwind the contractual arrangements as a result of their increased attention on companies such as ours following the introduction of the MII Notice.

In addition, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. If the contractual arrangements between TQ Digital and NetDragon (Fujian) and its equity holders are adjudicated to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- imposing economic penalties and/or confiscating the proceeds generated from the operation under the contractual arrangements;
- discontinuing or restricting operations of TQ Digital and/or NetDragon (Fujian);
- imposing conditions or requirements with which TQ Digital or NetDragon (Fujian) may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could be harmful to our business; and
- revocation of business licenses and/or the licenses of TQ Digital and/or NetDragon (Fujian).

Any of these actions will have a material adverse effect on our business, financial condition and results of operations.

We depend upon contractual arrangements with NetDragon (Fujian) in conducting our online game operations and receiving payments through NetDragon (Fujian), which may not be as effective in providing operational control as direct ownership

We conduct substantially all our operations, and generate substantially all our revenues, through the Structure Contacts and such other contractual arrangements between TQ Digital and NetDragon (Fujian). These contractual arrangements may not be as effective in providing us with control over NetDragon (Fujian) as if it were a direct wholly owned subsidiary.

These contractual arrangements are governed by PRC law and provide for the resolution of disputes through litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. If NetDragon (Fujian) fails to perform its obligations under these contractual arrangements, we may have to rely on legal remedies under PRC law, including seeking specific

RISK FACTORS

performance or injunctive relief, and claiming damages, which we cannot be sure would be effective. The legal environment in the PRC is not, however, as developed as in other jurisdictions. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements.

The pricing arrangement under the contractual arrangements among our members may be challenged by tax authorities

We could face adverse tax consequences if the PRC tax authorities determine that the Structure Contracts and/or such other contractual arrangements between TQ Digital and NetDragon (Fujian) were not entered into based on arm's length negotiations. If the PRC tax authorities determine that the Structure Contracts and/or such other contractual arrangements between TQ Digital and NetDragon (Fujian) were not entered into on an arm's length basis, they may adjust our income and expenses for PRC tax purposes which could result in higher tax liability.

We depend on dividends and other distributions on equity paid by our members and there may be restrictions on our dividend distributions

We generate substantially all our revenues through the Structure Contracts and such other contractual arrangements between TQ Digital and NetDragon (Fujian). These transactions are related party transactions, which must be conducted on an arm's length basis under applicable tax rules and are subject to review. As a result, these transactions may be reviewed by the relevant PRC authorities and the determination of service fees and other payments to TQ Digital may be challenged and deemed not in compliance with these rules. PRC tax authorities may then adjust our taxable income of our subsidiary and thus lower our distributable profits. In any such event, our business, financial condition and results of operations may be adversely affected. In addition, PRC legal restrictions permit payments of dividends by PRC entities only out of their retained earnings, if any, determined in accordance with the PRC accounting standards and regulations. Under the PRC law, our PRC subsidiary is also required to set aside at least 10% of their net profit each year to fund the designated statutory reserve fund until such reserve fund reaches 50% of its registered capital. These reserves are not distributable as cash dividends. As a result of these and other restrictions under the PRC laws and regulations, our PRC subsidiary is restricted in their ability to transfer a portion of its net assets to the Company in the form of dividends, loans or advances. Please also see the risk factor set out in the paragraph headed "Risk factors - Risks relating to the operations in the PRC - PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or us to penalties and otherwise adversely affect us" in this prospectus.

The controlling shareholders of NetDragon (Fujian) have potential conflicts of interests with us which may adversely affect our business

NetDragon (Fujian) is owned approximately 96.05% by Liu Dejian, 2.11% by Liu Luyuan, and the remaining 1.84% by Zheng Hui, Chen Minlin and Lin Yun. Liu Dejian, Liu Luyuan and Zheng Hui are our executive Directors. Accordingly, there may be conflicts of interest between their duties to NetDragon (Fujian) and us. We cannot assure you that when such conflicts arise, all of them will act

RISK FACTORS

in our best interests or that such conflicts will be resolved in our favour. In addition, all of them could violate their non-competition or employment agreements with us or their legal duties by diverting business opportunities from us to others. In any such event, our business, financial condition and results of operations may be adversely affected.

We rely on the licenses held by NetDragon (Fujian) and the interruption of our relationship with NetDragon (Fujian) could adversely affect our business

The ICP license and Internet Culture Operation licenses which are necessary for our online games are held by NetDragon (Fujian). TQ Digital does not have such licenses because of the relevant restrictions in the PRC laws and regulations. In particular, the business license of NetDragon (Fujian) will expire on 25 May 2009. There is no assurance that NetDragon (Fujian) will be able to renew its business license or other licenses when their terms expire with substantially similar terms as the ones it currently holds. On 15 October 2007, TQ Digital and all of the equity holders of NetDragon (Fujian) entered into the Exclusive Acquisition Rights Agreement, details of which are set out in “Structure Contracts - Agreement for the Exclusive Right to Acquire Equity Interest and Assets” to this prospectus. Upon the expiry of the term of the business license of NetDragon (Fujian) on 25 May 2009, the then PRC laws and regulations may still restrict TQ Digital from acquiring equity interest and/or assets from NetDragon (Fujian). Further, our relationship with NetDragon (Fujian) is governed by the contractual arrangements entered into between TQ Digital and NetDragon (Fujian) and its equity holders that are intended to provide us with effective control over the business operation of NetDragon (Fujian), but such contractual arrangement may not be as effective in providing control over the application for and maintenance of the licenses required for its business operations. NetDragon (Fujian) could violate its contractual arrangements under the Structure Contracts, go bankrupt, suffer from difficulties in its business or otherwise become unable to perform its obligations under the Structure Contracts with us and, as a result, our operations and our reputation and business could be severely harmed.

RISKS RELATING TO OUR BUSINESS

Our revenues are mainly generated from two online games and any significant adverse impacts on these two games could materially affect our business

Our revenues are mainly generated from Eudemons Online and Conquer Online. For each of the two years ended 31 December 2006 and the six months ended 30 June 2007, we derived approximately 92.1%, 98.8% and 94.3% of our revenues from Eudemons Online and Conquer Online, respectively. It is expected that we will continue to derive a majority of our revenues from Eudemons Online and Conquer Online at least for the year ending 31 December 2007. Accordingly, should there be (i) any reduction in the number of players in Eudemons Online or Conquer Online or any decrease in their popularity in the markets we operate; (ii) any failure by us to make improvements, upgrades or enhancements to Eudemons Online and Conquer Online in a timely manner; (iii) any lasting or prolonged server interruption due to network failures or other factors; or (iv) any other adverse developments specific to Eudemons Online or Conquer Online, our business, financial condition and results of operations could be adversely affected.

RISK FACTORS

The continuous development of our new games and enhancement of existing games may not be successful

We believe that the operating environment of the online game industry is changing rapidly. In order to maintain our profitability and financial and operational success, we must continuously develop new online games that are attractive to players, make improvements to the existing games that appeal to players and enhance the technical and artistic features of all of our games. The success of our games largely depends on our ability to anticipate and respond effectively to the ever changing customer preferences and demand. Developing games requires substantial investments prior to their launch and significant commitments of future resources afterwards to sustain their growth. There is no assurance that the games we develop will be attractive to players, will be viewed by the regulatory authorities as complying with content restrictions, will be launched as scheduled or will be able to compete with games operated by our competitors. If we are not able to consistently develop online games and enhance our existing games successfully, our future profitability and growth prospects will decline.

We have incurred net losses in the past and may experience earnings declines or net losses in the future

As reflected in the accountants' reports prepared by our reporting accountants, we had incurred loss of approximately RMB29.2 million for the year ended 31 December 2005. It was mainly due to our diversified business directions including www.91.com, causal games and MMORPGs before the Active Business Pursuit Period. As the return of our diversified business directions was not as satisfactory as we expected while expenses, including remuneration and capital expenditure, were already incurred, we recorded the loss for the year ended 31 December 2005. We have started to concentrate our development resources on MMORPGs and we managed to generate profits attributable to our equity holders of approximately RMB42.9 million and approximately RMB153.8 million for the year ended 31 December 2006 and the six months ended 30 June 2007, there is no assurance that we will not incur losses or that we will be able to sustain profits in the future.

We may not be able to sustain our high profit margin

For each of the two years ended 31 December 2006 and the six months ended 30 June 2007, we achieved gross profit margin of approximately 86.7%, 90.8% and 94.4%, respectively. Our net profit margin for the year ended 31 December 2006 and the six months ended 30 June 2007 amounted to approximately 35.2% and 58.9%, respectively, while we recorded a net loss in the year ended 31 December 2005. However, there is no assurance that we will be able to sustain our high profit margin in the future due to the rapidly changing and intensely competitive environment in the online game industry or any other factors.

We have a limited operating history for the evaluation of our business and prospects

We formally launched our first developed MMORPG in 2002. Our limited history in the online game business may not guarantee our prospects in the future.

RISK FACTORS

In addition, a significant strain has been placed upon, and will continuously be placed on, our management, systems, and resources due to our rapid growth and anticipated expansion in the future. There is no guarantee that our management, systems and resources can continue to achieve favorable operating results under such strain. In addition to training and managing our workforce, we will continue to develop and improve our financial and management controls and our reporting systems and procedures with reference to our limited operating history. For the further development of our financial and management controls and our reporting systems and procedures, we plan to integrate our ERP system, accounting system, customer information system, distribution and payment system onto a single platform to improve the efficiency and profitability of our operations, details of which are set out in “Statement of business objectives - business strategies - Further enhance our integrated operation model” of this prospectus. There is no assurance that we will be able to efficiently or effectively manage the growth of our operations, and any failure to do so may limit our future growth and adversely affect our business, financial condition and results of operations.

Players’ acceptance of the FTP model may change in the future

We do not charge our players any fees in playing our games but generate revenue by selling them virtual items to be used in the game. By allowing players to use the games without initial costs, this model enables us to quickly attract new players to experience our games and then gradually attach to them and develop a habit in purchasing our virtual items. However, our future revenues and profits are substantially dependent upon the acceptance and use of this model. The FTP model is a recent phenomenon and there is no assurance that a sufficiently broad base of consumers will continue to accept and use this model or that a new business model will not emerge.

We may not be able to successfully implement our business strategies

We are pursuing several business strategies, including exploring opportunities to expand our business operation in the overseas market. We have not yet identified any specific geographical locations for the further expansion in the overseas market. As such business strategies are still at a preliminary stage, no profound feasibility report, including the respective regulations of the overseas market, has been analysed. In addition, some of these strategies relate to products or markets in which we lack experience and expertise. There is no assurance that we will be able to deliver new products or enter into new markets on a commercially viable basis or in a timely manner, or at all. If we are unable to successfully implement our market penetration strategies, our revenue and profitability may not grow as rapidly as we expect, and our competitiveness may be adversely affected.

One of our business strategies is to continue to enhance our business development, including game content offerings, by acquiring other businesses that would complement our current online business and increase our player base and product and content offering, and by entering into cooperation arrangements with selected industry players. However, our ability to grow through such acquisitions and cooperation with external parties will depend on the availability of acquisition candidates at an acceptable cost, our ability to compete effectively to attract and reach agreement with preferable candidates or partners on commercially reasonable terms, the availability of financial resources to complete larger acquisitions or cooperation arrangements as well as our ability to obtain any required governmental approvals. However, our lack of experience in identifying, financing and

RISK FACTORS

completing large acquisition or cooperation arrangements may delay or disrupt such plans. In addition, the benefits of an acquisition or cooperation arrangements may take considerable time to develop and there is no assurance that any particular acquisition or cooperation arrangements will produce the intended benefits.

Our business depends on our key executives and employees and if we lose their services, our business may be seriously harmed

Our future success is heavily dependent upon the continued service of our key executives and other key employees. In particular, we rely on the expertise and experience of Liu Dejian, an executive Director, in our business operations. Mr. Liu is mainly responsible for our overall business strategic development and is the chief game designer of our game development team. Mr. Liu leads the game development team on the design of our online game products. He formulates our development policy and contributes to our growth as a competitive online game operator and developer. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. Further details of the background of Liu Dejian are set out in “Directors, senior management and staff - Directors - Executive Directors” of this prospectus. In addition, as we focus on the development of our own online games, we need to continue to attract and retain skilled and experienced online game developers to maintain its competitiveness. The loss of services of such skilled employees may have an adverse effect on our operations and business.

If one or more of our key personnel are unable or unwilling to continue their present positions or we are not able to retain skilled employees, we may not be able to easily replace them with suitable candidates within a short period of time and we may incur additional expenses to recruit and train new personnel. Our business could then be severely disrupted, and our financial condition and results of operations could be adversely affected.

Our online games may contain undetected programming errors or other defects and encounter external interruptions

Our online games may contain undetected programming errors or other defects and we face the challenge of external interruptions. For example, parties unrelated to us may develop programmes to interrupt the operation of our online games. Players may also develop programmes or use other means to infringe upon the game accounts of other players. The occurrence of undetected errors or defects in our online games, and our failure to discover and stop the external interruptions could disrupt our operations, damage our reputation and weaken our players’ game experience. As a result, such errors, defects and external interruptions could adversely affect our business, financial condition and results of operations.

We rely on third party service providers for our operation

We rely on third party service providers in various aspects. Our distribution and payment channels comprise (i) direct sales supported by online payment service providers and distribution partners, (ii) pre-paid card sales supported by distributors throughout the PRC, and (iii) cooperation channels supported by our cooperation partners. In addition, as at 30 June 2007, we leased approximately 38.7% of our servers from third parties and we rely on third parties in providing

RISK FACTORS

Internet support to our online games. We also rely on an Independent Third Party for the license from the GAPP, which is fundamental to our business, to publish our games. If the third party loses necessary capacity or qualification to provide or otherwise ceases to provide the service to us and we are not able to find alternative license service provider, we will not be able to publish our games in the Internet. If we continue to publish our games without such license, we will be subject to penalties including being shut down the website and a fine up to between five to ten times of the relevant revenue generated. In addition, we have no control over such third party service providers and cannot assure you that each of such service providers has competent capacity and qualification to provide such services to us, or will provide such services in line with applicable laws and regulations particularly in view of the changing regulatory environment. Any interruption in our ability to obtain the services of these or other third parties or a failure to obtain or maintain necessary capacity and qualification by such third parties, or a deterioration or violation in their performance could impair the timeliness and quality of our services or subject us to penalties under the PRC laws and regulations. Furthermore, if our arrangements with any of these third parties are terminated, invalidated, or modified against our interest, we may not be able to find alternative services or solutions on a timely basis or on terms favorable to us. If any of these events occurs, our business operations may be interrupted, our business may be disrupted or even be discontinued, our customers may cease using our products and services and our business, financial condition and results of operations could be materially and adversely affected.

We rely on our major suppliers for our operation

Our suppliers include primarily server and bandwidth leasing companies and game operation service providers. Our largest supplier for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 accounted for approximately 51.6%, 45.7% and 35.7% of our purchases during those periods, respectively. Our five largest suppliers for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 accounted for approximately 97.5%, 94.9% and 97.4% of our purchases during those periods, respectively. Should any of our major suppliers ceases to provide the services to us or the services provided do not meet our standard or the relationship between the suppliers and us deteriorates or even terminates and we are unable to find suitable alternative suppliers, our operations and profitability may be adversely affected.

Our technology infrastructure may experience unexpected network interruption or inadequacy or security breaches

Our technology infrastructure is vulnerable to damage from fire, flood, power loss, telecommunications failures, computer virus, hackings and similar events. Any network interruption or inadequacy that causes interruptions in the availability of our games or deterioration in the quality of access to our games or failure to maintain the network and server or failure to solve such problems quickly could reduce our players' satisfaction. In addition, any security breach caused by hackings, which involve efforts to gain unauthorised access to information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material adverse effect on our business, financial condition and results of operations.

RISK FACTORS

We rely heavily on our direct sales as our key distribution and payment channel and any disruption may adversely affect our operation

Under our direct sales, players may credit their game accounts through our online payment service providers, distribution partners or wire transfer. After crediting their game accounts, players may use the corresponding value in the game accounts to purchase their selected virtual items at our operated platforms or through the official website of each of our online games. Please see “Business - Our operation - Distribution and payment” in this prospectus for details of our direct sales. Our direct sales accounted for approximately 70.8%, 79.4% and 87.6% of our total revenue during each of the two years ended 31 December 2006 and the six months ended 30 June 2007. Any disruption or failure or negative receptions in the direct sales system or any deterioration of our business relationships with the online payment service providers or distribution partners may adversely affect our business, financial condition and results of operations.

The underdeveloped online payment systems in the PRC may affect our operation

Online payment systems in the PRC are at an early stage of development. Although major banks in the PRC are instituting online payment systems, these systems are not as widely available or acceptable to consumers in the PRC as in the countries with more mature online payment systems. In addition, only a limited number of online game players have credit cards or debit cards. The underdeveloped online payment systems might have an adverse effect on our business and result of operation.

We cannot assure that we will continue to enjoy preferential tax treatments or financial incentives in the future and changes in the PRC laws or policies may increase the tax burdens of us or our investors

Certain of our affiliates and subsidiaries enjoy preferential tax treatments, in the form of reduced tax rates and/or tax holidays, provided by the PRC government or its local authorities or bureaus. TQ Digital is a foreign-invested enterprise located in the high technology industrial development zone approved by the State Council. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) issued by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) on 29 March 1994, hi-tech enterprises in the high technology industrial development zone approved by the State Council are entitled to paying the income tax at the reduced tax rate of 15%. The qualification of hi-tech enterprises are subject to review once every two years. TQ Digital has been recognised as a high-tech enterprise on 29 July 2005 and 16 August 2007 and thus is entitled to a preferential enterprise income tax of 15%.

TQ Digital was recognised as a software enterprise on 25 December 2003. Pursuant to the Circular on the Tax Policies for Encouraging the Development of Software and Integrated Circuit Industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知) issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the General Administration of Customs (海關總署) on 22 September 2000, TQ Digital can enjoy tax benefits of tax exemption for two years and a reduction in tax payable for three succeeding years. It was exempted from paying the enterprise income tax between 2003 and 2004 and has been entitled to paying the enterprise income tax at the reduced tax rate of 7.5% from 2005 to 2007.

RISK FACTORS

NetDragon (Fujian) continued to be recognised as a hi-tech enterprise on 9 November 2004 and 16 August 2007. As NetDragon (Fujian) is located in the state-level high technology industrial development zone, it was entitled to paying the enterprise income tax at the reduced tax rate of 15% between 2005 and 2006. NetDragon (Fujian) was suspended to be qualified as a hi-tech enterprise during the review in 2006 though it finally obtained the qualification on 16 August 2007. As such, we consider the tax rate of enterprise income tax applicable to NetDragon (Fujian) for the year ending 31 December 2007 is 15%.

In addition to the above preferential treatments in connection with income tax, TQ Digital and NetDragon (Fujian) have enjoyed certain VAT tax refund and exemption in business taxes in the past.

There can be no assurance that the above-mentioned tax concessions and such other tax benefits we are currently enjoying will not be modified or challenged by the taxation authority. Should our taxation benefits we enjoyed be modified or challenged for any reasons, our business and financial performance can be adversely affected.

On 16 March 2007, the National People's Congress of the PRC adopted a new enterprise income tax law that imposes a single uniform income tax rate of 25% for most domestic enterprises and foreign invested enterprises. This new law will be effective as of 1 January 2008. It contemplates various transition periods and measures for existing preferential tax policies, including a grace period for as long as five years for foreign-invested enterprises which are currently entitled to a lower income tax rate and continued implementation of preferential tax treatment with a fixed term until the expiration of such fixed term. High-technology enterprises supported by the PRC government may be eligible to a lower income tax rate of 15%. The exemption of withholding tax at 20% on dividends paid by foreign invested enterprise to its foreign investors under the existing tax laws may no longer be available under the new law. In addition, the new law deems an enterprise established offshore but having its management organ in the PRC as a "resident enterprise" which will be subject to PRC tax on its global income. The term "management organ" has not yet been defined by the PRC government. The new enterprise income tax law empowers the State Council of the PRC to enact appropriate implementing rules and regulations.

The impact of the new enterprise income tax law to us, in particular our enterprise income tax rate in 2008 and afterwards, is still uncertain due to the uncertainty of its interpretation and implementation. The implementation of the new law and its implementation rules which may be issued by the State Council may eliminate or significantly shorten the period in which we enjoy our preferential tax treatment or treat the Company or any of its subsidiaries outside the PRC as a resident enterprise under the new enterprise income tax law, which would adversely affect our financial condition and gains from disposal of our shares and results of operations. It is also uncertain whether the dividends paid to our foreign investors will correspondingly be deemed as income derived in the PRC and thus subject to the PRC withholding tax. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of changes in applicable tax laws. Any significant increase of our income tax liability in the future could have a material adverse effect on our financial condition and results of operations.

RISK FACTORS

Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability

Transfer pricing refers to the prices that one member of a group of affiliated corporations charges to another member of the group for goods, assets, services, financing or the use of intellectual property. The laws or regulations of each country or territory generally will require that transfer prices be the same as those charged by unrelated corporations dealing with each other at arm's length. If the authority of the relevant jurisdiction believes that transfer prices were manipulated by the affiliated corporations in a way that distorts the true taxable income of the corporations, the authority of the relevant jurisdiction could require the relevant corporation to redetermine transfer prices and thereby reallocate the income or adjust the taxable income or deductible cost and expense of the affiliated corporations in order to reflect such income clearly. Any such reallocation or adjustment could result in a higher overall tax liability to the relevant group. Moreover, if the country or territory from which the income is being reallocated does not agree to the reallocation, the same income could be subject to taxation by both countries or territories.

During the Active Business Pursuit Period, some of our administrative operations have been outsourced by TQ Digital to NetDragon (USA). TQ Digital has also entered into certain contractual arrangements with NetDragon (Fujian) in relation to the operation of our online games. We expect that such arrangements will continue. We have determined transfer prices that we believe are the same as the prices that would be charged by unrelated parties dealing with each other at arm's length. However, there can be no assurance that we will continue to be found to be operating in compliance with transfer pricing laws, or that such laws will not be modified, or the taxation authority may challenge our tax filings in the past, which, as a result, may require changes to our transfer pricing practices or operating procedures. Any determination of income reallocation or modification of transfer pricing laws could result in an income tax assessment of the portion of income deemed to be derived from the taxation jurisdiction that so reallocates the income or modifies its transfer pricing laws. As at the Latest Practicable Date, we are not aware of any enquiry or investigation by any tax authority with respect to transfer pricing procedures we carried out.

In addition, we note that we have not sought ruling from the Internal Revenue Service with respect to the tax treatment of our provision of access to the users of our non-Chinese language games and there can be no assurance that the Internal Revenue Service will agree with our positions and conclusions in that regard.

Please also see the risk factor set out in the paragraph headed “Risk factors - Risks relating to our contractual arrangements - The pricing arrangement under the contractual arrangements among our members may be challenged by tax authorities” in this prospectus.

We do not have any business liability or disruption insurance coverage for our operations in the PRC and the overseas markets

The insurance industry in the PRC is still at an early stage of development. In particular, PRC insurance companies offer limited business insurance products. In addition, it is not compulsory for an online game developer and operator to maintain an insurance policy to cover losses relating to its

RISK FACTORS

business operation in the PRC and the overseas markets. Therefore, we have not yet taken out any insurance to cover our business operations in both the PRC and the overseas markets. Any business disruption, litigation or natural disaster could result in substantial costs and diversion of resources for us and could adversely affect our financial conditions and results of operations.

Our diversified player base exposes us to potential regulatory and litigation risks in different jurisdictions

Our online games are offered to players in various languages, including Chinese, English, French and Spanish and we have a diversified player base. As players may log-on to our online game from anywhere in the world, we are exposed to potential regulatory and litigation risks in different jurisdictions. A particular jurisdiction may have or may invoke a restrictive law or regulation governing players' behaviour or activities in the Internet. We may be liable for any non-compliance with such law or regulation. The unforeseeable foreign law or regulation and claims could detrimentally affect our operation and business as well as our financial performance.

Our regulatory activities over our online games may expose ourselves to potential claims from our players

In our daily supervision of the operation of our online games or during the investigation of players' complaints, we may take actions to regulate the behaviour of our players. For example, if we suspect a player of installing cheating programme on our online games, we may freeze his game account or even ban the player from logging-on to our online games. Such regulatory activities are essential to maintain a fair playing environment for our players. However, if any of our regulatory activities are found to be wrongly implemented, players may institute legal proceedings against us for damages or claims in any nature arising thereof. As a result, our operation, business and financial performance may be adversely affected.

The relevant PRC authority may challenge the filings of our PRC domestically developed online games with the MOC

Pursuant to the Internet Culture Regulations, PRC domestically developed online games shall be filed with the MOC within 60 days since commencement of operation in the PRC. All our online games are developed in the PRC and are subject to such filing requirements under the Internet Culture Regulations. NetDragon (Fujian) has delayed its filings of the online games it operates in the past. Currently, as confirmed by our PRC legal adviser, Dacheng Law Offices, NetDragon (Fujian) has filed with the MOC the PRC domestically developed online games. However, there is no assurance that the filings of all our PRC domestically developed online games will not be challenged by any PRC authorities as we have not yet received all the formal replies from the PRC authorities. If the filings of any of our PRC domestically developed online games are not accepted by the relevant PRC or be found not in compliance with the applicable laws and regulations authority for any reasons, the MOC may impose penalties on us, including but not limited to stopping the operation of the games. As a result, our operating results and financial performance may be materially affected adversely.

RISK FACTORS

It is uncertain that we will continuously be granted the necessary licences and permits or be able to fulfil other regulatory requirements for the operation of online games

The Internet industry, including the operation of online games, in the PRC is strictly regulated by the PRC government. Various regulatory authorities of the central PRC government, including but not limited to the MII, the GAPP, the MOC and the NCAC, are empowered to issue and implement regulations governing various aspects of the online game industry.

NetDragon (Fujian) is required to obtain applicable permits or approvals from different regulatory authorities in order to provide its services. For example, as an Internet content provider, or ICP, NetDragon (Fujian) must obtain an ICP license in order to engage in any commercial ICP operations within the PRC. In addition, an online game operator must also obtain a license from the MOC in order to distribute games through the Internet. NetDragon (Fujian) has obtained the ICP license and the license from the MOC for online game operation. For publishing games through Internet, we are relying on a third party, who has the required license from the GAPP, to publish our games in the Internet. In particular, according to the terms and conditions of its ICP license, NetDragon (Fujian) is required to establish branches or subsidiaries in each of the six regions all around the PRC, file with each local telecommunication authorities at provincial level and set up server platforms in Beijing, Shanghai and Fuzhou. Failure to comply with such terms and conditions may subject NetDragon (Fujian) to monetary penalties or restrict its ability to pass the annual inspection of the ICP license or to obtain a renewed ICP license upon the expiration of its current term. If NetDragon (Fujian) fails to obtain or maintain any of the required permits or approvals, it may be subject to various penalties, including fines and the discontinuation or restriction of its operations. Any such disruption in our business operations would adversely affect our financial condition and results of operations.

If some of our online game business activities are deemed to be in violation of law or subject to additional license, permits, approvals, filings or requirements in the future, we may be subject to penalties or requested to modify our online game operation model, which could have a material adverse effect on our business and results of operations

There can be no assurance that the MII or other government authorities will not interpret existing laws, regulations or policies in such a manner so as to, or implement new laws, regulations or policies that, request us to obtain (whether additional or not) licenses, approvals, permits, or conduct additional filings, or impose penalties on us or require us to cease or modify our online game business in order to avoid any violation of PRC laws or regulations. Any such requests or modification to our online game operation model or penalties on us could have an adverse effect on our business and results of operations.

We may be liable to third parties for information improperly displayed on, retrieved from or linked to our websites or for information delivered or shared through our services

As a provider of online services, we may face liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that are published on our websites or delivered or shared through our services. We could also be subject to claims based upon content that is accessible on our websites or through our services, such as content

RISK FACTORS

and materials posted by us or by players on message boards, online communities or voting systems that are offered on our websites or through our services. By providing technology for hypertext links to third-party websites, we may be held liable for copyright or trademark violations by those third-party sites. Third parties could assert claims against us for losses incurred in reliance on any erroneous information provided by us.

We may be ordered to bear the liabilities of infringement. Further, we may incur significant costs in investigating and defending ourselves against these claims, even if they do not result in liability. These claims could have an adverse effect on our business.

We may be held liable for inappropriate online communications made among our players

Our players engage in highly personalised exchanges over our platform. Players who have met online through our services may become involved in emotionally charged situations and could suffer adverse moral, emotional or physical consequences. Such occurrences could be highly publicised and have a significant negative impact on our reputation. Government authorities may require us to discontinue or restrict those services that would have led, or may lead, to such events. As a result, our business would suffer and our player base, revenues and profitability would be adversely affected.

The information collected from our players may infringe on their privacy and may not be accurate

We collect personal data from registered players with their prior consent in order to understand players and their needs better. If privacy concerns or regulatory restrictions prevent us from collecting or using this information, the analysis of our target market and the developing trend of the subject online game may not be accurate. Further, we rely solely on the information provided by registered players and do not verify the authenticity of such data. If the information that we collect is materially inaccurate or false, this may also adversely affect our implementation of the online game developing strategy.

We cannot be certain that our operation does not or will not infringe any patents, valid copyrights or other intellectual property rights held by third parties

We may in the future be, subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. Furthermore, our employees may install software which may violate the intellectual property rights of others. We may be liable to such behaviour of our employees. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially disrupt the continuity of our business and the stability of our financial situation.

Unauthorised use of our intellectual property may adversely affect our business and reputation

Our copyrights, service marks, trademarks, trade secrets and other intellectual property are critical to our success and we have not completed the registrations of all our intellectual properties

RISK FACTORS

in the jurisdictions where we operate. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use the intellectual property used in our business without authorisation which may cause an adverse effect to our business.

The validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. In particular, the laws and enforcement procedures in the PRC and certain other countries are immature or do not protect intellectual property rights to the same extent as do the laws and enforcement procedures of the more developed countries. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

We may not be able to pay dividends in accordance with our proposed dividend policy

We are a holding company, and we rely principally on dividends and other distributions on equity paid by our members, including the funds necessary to repay any debt we may incur. Whilst we intend to make dividend payments in the future, the amount of dividends to be declared will be subject to, among other things, the full discretion of the Directors, taking into consideration the amount of our earnings, financial position, cash requirements and availability, the provisions of applicable laws and regulations and other relevant factors. In addition, if any of our members incurs debt on its own behalf in the future, the instruments governing the debt may restrict the ability of such subsidiary to pay dividends or make other distributions to us. Furthermore, PRC legal restrictions permit payments of dividends by TQ Digital only out of its net profit, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law, TQ Digital is also required to set aside a portion of its net profit each year to certain reserve funds. These reserves are not distributable as cash dividends. The dividend distribution record during the Active Business Pursuit Period may not be used as reference or basis to determine the level of dividends that may be declared by us in future. Please also see the risk factor set out in the paragraph headed “Risk factors - Risks relating to our contractual arrangements - We depend on dividends and other distributions on equity paid by our members and there may be restrictions on our dividend distributions” in this prospectus.

Illegal game servers could harm our business and reputation

We face the risk of illegal game servers with the increase in the number of online game players in the PRC or even in the overseas market. Illegal game servers infringe on our intellectual property rights over our online games. Being an alternative playing channel to our online games, they are also our direct competitor. The enforcement of the relevant laws and regulation in intellectual property over the Internet may not be sufficient enough to protect our business. The establishment of illegal game servers could harm our business and reputation and adversely affect our results of operations.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

We may be adversely affected by uncertainties and changes in the PRC laws and regulations of Internet and value-added telecommunications

The PRC government heavily regulates the Internet and value-added telecommunications service sectors in the PRC, the restrictions of content on the Internet and value-added telecommunications services and the licensing and permit requirements for companies in the Internet and value-added telecommunications service sectors. Since these laws, regulations and legal requirements are relatively new and evolving, their interpretation and enforcement may involve significant vagueness, which leads to substantial uncertainties regarding the operations and activities of Internet and value-added telecommunications services in the PRC. Our current or previous services or businesses could be deemed to be in violation of the PRC laws or regulations, and we may be subject to fines or other penalties and/or may have to cease such business or services.

The online game market is increasingly competitive which may affect our position in the market

We expect more companies to enter into the online game industry and a wider range of online games to be introduced to the online game market. As the online game industry is relatively new and constantly evolving, our current or future competitors may become more successfully as the industry matures. In particular, any of these competitors may offer new online games that provide better performance, superior creativity or other advantages over ours. These new online games may weaken the market strength of our brand name and achieve greater market acceptance than ours. Furthermore, any of our current or future competitors may be acquired by, receive investments from or enter into other commercial relationships with larger, well-established and well-financed companies and therefore obtain significantly greater financial, marketing and game licensing and development resources than we have. In addition, increased competition in the online game industry could make it difficult for us to retain existing players and attract new players. If we are unable to compete effectively in the online game market, our business, financial condition and results of operations could be adversely affected.

The online game industry is subject to rapid technological changes which may render our games obsolete or unattractive to our players

We need to anticipate the emergence of new technologies and games and assess their market acceptance. New technologies in online game programming or operations could render the online games that we develop or plan to develop obsolete or unattractive to players, thereby limiting our ability to recover development costs and potentially adversely affecting our future profitability and growth prospects.

The penetration rate for personal computers is low and the cost of Internet access is high in the PRC and these factors may affect the growth of our player base

Although the use of personal computers in the PRC has increased in recent years, the penetration rate for personal computers in the PRC is much lower than that in the U.S. and other developed countries. In addition, despite a decrease in the cost of personal computers and the expansion of

RISK FACTORS

broadband access which leads to lower Internet access fees, the cost of Internet access remains relatively high in comparison to the average per capita income in the PRC. Such limited use of personal computers in the PRC and the relatively high cost of Internet access may limit the growth of our business. Furthermore, any increase in Internet access or telecommunications fee increase might reduce the number of players of our online games.

Control on Internet access and the distribution of news, information or other content on Internet in the PRC may adversely affect our business

The PRC has enacted laws and regulations governing Internet access and the distribution of news, information or other content, as well as products and services, through the Internet. In the past, the PRC government has stopped the distribution of information through the Internet that it believes violates PRC law or is deemed not acceptable to the relevant PRC authorities. The MII, the GAPP and the MOC promulgated regulations which prohibit online games from being distributed through the Internet if they contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise security or secrets of the PRC.

If any online games or any other content we offer or expect to offer through our networks were deemed to violate any of such content restrictions, we would not be able to continue such offerings and could be subject to penalties, including confiscation of income, fines, suspension of business and revocation of our license for operating online games, which would adversely affect our business, financial condition and results of operations.

Restrictions on import and export of technologies may adversely affect our business operations

Relevant regulations require a registration with the relevant local authority of Ministry of Commerce of the PRC for any license agreement with a foreign licensor or licensee that involves an import or export of technologies, including online game software into or outside the PRC. Without the registration, a party may be restricted to remit the licensing fees out of the PRC to any foreign game licensors; neither can we collect any licensing fees to the PRC from any foreign licensees. Furthermore, the NCAC requires us to register copyright license agreements relating to imported software. Without the NCAC registration, we are not allowed to publish or reproduce the imported game software in the PRC. As at the Latest Practicable Date, we did not publish or reproduce any imported game software in the PRC.

In addition, the MOC requires us to submit for its review and approval of any online games we have to license from overseas game developers. If we license and operate games without such approval, the MOC may impose penalties on us, including but not limited to stopping the operation of the games, revoking the Internet culture operation license required for the operation of online games in the PRC. If we fail to maintain all our required licenses, our business operations may be adversely affected.

Control on issuance of Internet cafe licenses may adversely affect our business and results of operations

The PRC government has promulgated several regulations administrating Internet cafes illustrating its intention of intensifying the regulation of Internet cafes, which are currently one of the

RISK FACTORS

venues for our players to play our online games. The issuance of Internet cafe licenses is subject to the overall planning of the local governments in respect of total number and locations of Internet cafes. Currently, the grant of new Internet cafe licenses has been suspended. Please refer to the paragraph headed “Regulations relating to the industry - Regulations on Internet cafes” in this prospectus.

Any reduction in the number, or any slowdown in the growth, of Internet cafes in the PRC may limit our ability to maintain or increase our revenues and expand our customer base, which will in turn adversely affect our business and results of operations.

The recently enacted PRC law regulating the playing time and players’ age of online games may detrimentally affect our business and operations

In April 2007, several governmental authorities, including the GAPP and the MOC jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (關於保護未成年人身心健康實施網絡游戲防沉迷系統的通知) (the “**Notice**”) which is annexed to the Standards Regarding the Development of Anti-addiction System on Online Games (網絡游戲防沉迷系統開發標準) and the Proposal Regarding the Authentication of Real Names for Anti-addiction System on Online Games (網絡游戲防沉迷系統實名認證方案). According to the Notice, the anti-fatigue system shall be put into operation in all existing online games from 16 July 2007 and included in all online games to be put into operation in the PRC. Failure to comply with the requirements under the Notice may subject us to penalties, including but not limited to suspension of our operation of online games, revocation of our licenses and approvals for our operations, rejection to or suspension of our application for approvals, licenses, or filings for any new game, or prohibiting us from operating any new game.

RISKS RELATING TO THE OPERATIONS IN THE PRC

Changes in economic, social and legal developments in the PRC may adversely affect our business

The PRC has a long history of operating as a planned economy. Although the PRC government has undertaken economic reforms to transform the PRC economy into a market economy with socialist characteristics, there are substantial state-owned assets still being held by the PRC government, and the PRC government still has material control over the PRC economy through resources allocation, implementation of industrial policies, provision of preferential treatments. These reforms have resulted in a more significant role being played by market forces in the overall economic performance. Nevertheless, many of the regulations are subject to further refinement and revision aimed at optimising the economic system. There is no assurance that any change in the economic conditions as a result of the economic reforms, or macro-economic control measures adopted by the PRC government will have a positive effect on the economic development of the PRC.

Since 1979, the PRC has promulgated various laws and regulations relating to economic issues in general as well as issues involving foreign investment. In 1982, the National People’s Congress of the PRC (全國人民代表大會) resolved to amend the Constitution to allow foreign investment and to protect the “legal interests” of foreign investors in the PRC. Since then there has been a tendency in legislation towards giving increasing protection to foreign investors. Although significant progress

RISK FACTORS

has been made in the legal system of the PRC, the enforcement of existing laws and regulations may be uncertain or inconsistent, and the interpretation of these laws and regulations may change from time to time. Any such change could have an adverse impact on our business and thereby adversely affect our business operations.

In addition, the growth of the PRC economy has been uneven across different geographic regions and different economic sectors. In order to stabilise national economic growth, the PRC government has recently adopted a series of macroeconomic policies. These policies include measures that restrict excessive growth in specific sectors of the economy. We cannot predict the future direction of economic reforms or the effects that any such measures may have on our business, financial condition or results of operations. In addition, there is no assurance that the economy will continue to grow, or that its growth will be steady or in geographic regions or economic sectors to our benefit. Since we derive a majority of our revenues from the PRC, we depend heavily on the general economic condition in the PRC for our continued growth. A downturn of the PRC's economic growth or a decline in its economic condition may have material adverse effects on our financial condition and results of operations.

There is no assurance that we will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange

RMB is not freely convertible into other currencies, except under certain circumstances. Pursuant to the Regulations of the Foreign Exchange of the PRC (外匯管理條例) and the Regulations on the Foreign Exchange Settlement, Sale and Payments (結匯、售匯及付匯管理規定), upon the provision to the banks which are authorised to engage in foreign exchange business with all the required documents under the relevant PRC laws, foreign investment enterprises are permitted to remit their profit or dividends in foreign currencies overseas or repatriate such profit or dividends after converting the same from RMB into foreign currencies through those banks.

Our business operations are mainly undertaken by TQ Digital, NetDragon (Fujian) and NetDragon (Shanghai) which are enterprises established in the PRC, and subject to the above regulations. There is no assurance that TQ Digital, NetDragon (Fujian) or NetDragon (Shanghai) could obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange.

Fluctuations in the exchange rate of currencies may adversely affect our business

Our financial statements are prepared in RMB. However, we receive our revenue in RMB and US dollars and pay for our expenditures mainly in RMB, Hong Kong dollars and US dollars.

Historically, the official exchange rate for the conversion of the RMB to US dollars has been stable. However, since 21 July 2005, the RMB has been pegged against a basket of currencies determined by the People's Bank of China from time to time, as opposed to US dollars only, and the value of the RMB is allowed to appreciate or depreciate by up to 0.5% each day against the new peg. Depending on factors such as the nature and value of the said basket of currencies as determined by the People's Bank of China from time to time, it is possible that the value of the RMB may fluctuate in value against the US dollar or other currencies in the long term.

RISK FACTORS

Our results of operations and financial condition may be affected by changes in the value of the RMB and other currencies in which our revenue and expenses are denominated. As our business continues to develop, our exposure to foreign currency risks may increase. Any significant fluctuations among these currencies may adversely affect our operating results.

Our operations are subject to the uncertainty associated with the legal system in the PRC, which could limit the legal protection available to potential investors

We conduct our business through TQ Digital, NetDragon (Fujian) and NetDragon (Shanghai) in the PRC which are mainly subject to the governance of the PRC law. The PRC is a civil law jurisdiction based on written codes and statutes. Unlike common law jurisdictions, prior court decisions may be cited as persuasive authority but do not have legal binding force. Although the PRC government has promulgated laws and regulations in relation to economic matters in general such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to establishing a comprehensive legal system conducive for investment activities since 1979, the implementation, interpretation and enforcement of these written statutes may involve greater uncertainty compared to those in the common law jurisdictions due to a relatively short legislative history, limited volume of court cases and their non-binding nature. Furthermore, as many laws, regulations and legal requirements have only been recently adopted by the central or local government authorities, their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. Depending on the government authority or how an application or a case is presented to such authority, we may receive less favorable interpretations of law than in other cases. In addition, any litigation in the PRC may be protracted and result in substantial legal costs and diversion of resources and management attention. Similarly, legal uncertainty in the PRC may limit the legal protection available to potential investors. We cannot predict the effect of future legal development in the PRC, including promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national law. As a result, there is substantial uncertainty as the legal protection available to potential investors.

There may be difficulties in seeking recognition and enforcement of foreign judgements or arbitral awards in the PRC

Substantially all of our assets are located in the PRC, and most of our senior management members and Directors reside in the PRC. However, the PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgements made by the courts in most jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院互相認可和執行當事人協議管轄的民商事案件判決的安排) (the “Arrangement”), pursuant to which a party with a final court judgement rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of such judgement in the PRC. Similarly, a party with a final judgement rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgement in Hong Kong. A choice of court

RISK FACTORS

agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgement rendered by a Hong Kong court in the PRC if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets, senior management members or Directors in the PRC in order to seek recognition and enforcement for foreign or Hong Kong judgements in the PRC.

The PRC is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, or the New York Convention, which accordingly allows for the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in other parts of the PRC. As a result, a Memorandum of Understanding was signed on 21 June 1999 to permit reciprocal enforcement of arbitral awards between Hong Kong and the PRC. Such Memorandum of Understanding was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. However, it may be difficult to seek recognition and enforcement of arbitral awards in the PRC if the arbitral awards were given by arbitration bodies that are not signatories to the New York Convention and do not have similar arrangements under the Memorandum of Understanding between Hong Kong and the PRC.

Changes in the PRC government policies in foreign investment in the PRC may adversely affect our business and results of operations

We are subject to restrictions on foreign investment policies imposed by the PRC law from time to time. For instance, under the catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) issued in 1997 and amended in 2002 and 2004, some industries are categorised as sectors which are encouraged, restricted or prohibited for foreign investment. As the catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) is updated every few years, there can be no assurance that the PRC government will not change its policies in a manner that would render other part in addition to value-added telecommunication services or all of our businesses to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant approval authorities to engage in businesses which become prohibited or restricted for foreign investors, we may be forced to sell or restructure our businesses which have become restricted or prohibited for foreign investment. If we are forced to adjust our corporate structure or business line as a result of changes in government policy on foreign investment, our business, financial condition and results of operations may be materially adversely affected.

RISK FACTORS

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or us to penalties and otherwise adversely affect us

On 21 October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“Notice 75”), which became effective as of 1 November 2005. According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas fund raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by 31 March 2006. In May 2007, SAFE issued relevant guidance to its Local branches with respect to the operational process for SAFE registration which standardised more specific and stringent supervision on the registration relating to the Notice 75. Under the relevant rules, failure to comply with the registration requirements set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents or the onshore company to penalties under PRC foreign exchange administration regulations.

Currently, our existing shareholders, who are PRC residents or have PRC residents as their ultimate beneficial owners have committed to us and confirmed that they have complied with these applicable SAFE registration requirements. However, there is no assurance that all registrations or filings submitted by such shareholders will be accepted by SAFE or such shareholders will amend their registrations if there is any change in their respective interest in our Company or other material change in our Company in a timely manner pursuant to the SAFE registration requirements. There is also no assurance as to any new shareholders, who are PRC residents or have PRC residents as their ultimate beneficial owners, will comply with the SAFE registration requirements. The failure or inability of such relevant PRC residents to comply with such SAFE registration requirements may subject such PRC residents or our PRC subsidiary to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our subsidiary’s ability to distribute profits to us, or otherwise adversely affect us.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees’ share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則), or the Individual Foreign Exchange Rules, issued on 5 January

RISK FACTORS

2007 by SAFE and relevant guidance issued by SAFE in March 2007, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company may be remitted into a foreign currency account of such PRC citizen or be exchange into RMB. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator, appoint a custodian bank and open dedicated foreign currency accounts to handle transactions relating to the share option scheme or other share incentive plan. We and our PRC citizen employees who will be granted share options, or PRC option holders, will be subject to these rules upon the Listing. If we or our PRC option holders fail to comply with these rules in the future, we or our PRC option holders may be subject to fines and legal or administrative sanctions. Please also refer to the paragraph headed “Regulations Relating to the Industry - Regulations Relating to Employee Share Options” in this prospectus.

A recurrence of SARS or an outbreak of other epidemics, such as avian flu, could adversely affect the national and regional economies in the PRC and our prospects

Some regions in the PRC, including the cities where we operate, are susceptible to epidemics such as Severe Acute Respiratory Syndrome, or SARS. Past occurrences of epidemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 avian flu, especially in the cities where we have operations, may result in quarantines, temporary closures of our offices, travel restrictions or the sickness or death of our key personnel. Any of the above may cause material disruptions to our operations, which in turn may adversely affect our financial condition and results of operations.

RISKS RELATING TO THE INTERNATIONAL PLACING

An active trading market for the Shares may fail to develop or be sustained, which could have a material adverse effect on the liquidity and market price of the Shares

Prior to the completion of the International Placing, there has been no public market for any of the Shares. The Placing Price was determined by negotiations between the Company and the Global Coordinator (for itself and on behalf of the Underwriters) and may not be indicative of the price at which the Shares will be traded on GEM. In addition, there is no guarantee that an active trading market for the Shares will develop, or, if it does, that it will sustain. The liquidity and the price of the Shares following completion of the International Placing are subject to a number of factors including, among other factors:

- variation of our operating results;
- investors’ perception of the Group and our business prospects;
- changes in financial estimations by securities analysts;

RISK FACTORS

- appointments or resignations/removals of key personnel;
- general stock market conditions; and
- general economic and other factors.

As the Placing Price is substantially higher than the net tangible book value per Share, you will incur immediate and substantial dilution

Based on the indicative Placing Price range of HK\$11.18 to HK\$13.18, the Placing Price is expected to be substantially higher than the net tangible book value per Share, ranging from RMB2.25 to RMB2.59. Accordingly, purchasers of the Placing Shares in the International Placing at the Placing Price will experience an immediate and substantial dilution in value per Share if viewed by reference to the net tangible book value per Share.

You may experience further dilution if we issue additional Shares in the future

We may need to raise additional funds to finance the future expansion of our existing operations or new acquisitions. The Company will comply with Rule 17.29 of the GEM Listing Rules, which specifies that no further Shares or securities convertible into equity securities of the Company (subject to certain exceptions) may be issued or form the subject of any agreement to issue within six months from the Listing Date. We may raise such funds by way of issuance of new equity or equity-linked securities of the Company other than a pro-rata basis to existing Shareholders (e.g. rights issue) after six months from the Listing Date, in which case the percentage shareholding of the then existing Shareholders may be diluted or reduced or such new securities may confer rights and privileges that take priority over those conferred by the Shares.

RISKS RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS

We cannot guarantee the accuracy of facts and other statistics with respect to certain information contained in this prospectus extracted from government official sources

Certain statistics and the related facts on the PRC online game market set out in the section headed “Industry Overview” in this prospectus have been extracted from government official sources. We have not carried out any independent verification on these statistics and facts. Accordingly, we make no representation as to the completeness or accuracy of these statistics and facts or their compatibilities with other sources or reports. Due to different collection methods and other reasons, these statistics and facts contained in this prospectus may be inaccurate and should not be unduly relied upon.

Forward-looking statements contained in this prospectus may prove inaccurate and therefore investors should not place undue reliance on such information

This prospectus contains certain forward-looking statements relating to our plans, objectives, expectations and intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the

RISK FACTORS

Group to be materially different from the anticipated results, performance or achievements of the Group expressed or implied by these forward-looking statements in this prospectus. Such forward-looking statements are based on numerous assumptions as to our present and future business strategies and the environment in which we will operate in the future. Our actual results, performance or achievements may differ materially from those discussed in this prospectus.

Sale or perceived sale of substantial amounts of Shares in the public market after the International Placing could materially adversely affect the prevailing market price of our Shares

The Shares beneficially owned by the existing Shareholders are subject to certain lock-up periods. There is no assurance that the Shareholders, or the beneficial owners of the Shares, will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. Sales of substantial amounts of the Shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Shares. Such sales or the perception of such sales are likely to make it more difficult for us to sell equity or equity-linked securities in the future at a time and price which the Directors deem appropriate.

Investors should read the entire prospectus carefully and we strongly caution investors and not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein

Our Directors wish to emphasise to potential investors that they do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media and those information was not sourced from or authorised by us. We make no representation as to appropriateness, accuracy, completeness or reliability of any information contained in press articles or other media. To the extent that any of the information is inconsistent with, or conflicts with, the information contained in this prospectus, the Directors disclaim it. Accordingly, prospective investors should not rely on any of the information in press articles or other media.

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

PLACING SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the International Placing which is sponsored by Bear Stearns and First Shanghai Capital. Subject to the terms and conditions of the Underwriting Agreement including, among other things, the determination of the Placing Price between Bear Stearns (for itself and on behalf of the other Underwriters) and us at or before the Price Determination Date, the Placing Shares will be fully underwritten by the Underwriters. For further information relating to the underwriting arrangements, please see the section headed "Underwriting" of this prospectus.

SIGNING OF UNDERWRITING AGREEMENT AND DETERMINATION OF THE PLACING PRICE

The Underwriting Agreement is expected to be signed on or about the date that the Placing Price is agreed. The Placing Price is expected to be fixed by agreement between Bear Stearns (for itself and on behalf of the other Underwriters) and us on or before the Price Determination Date, which is currently scheduled on or before Friday, 26 October 2007 or such later time and/or date as may be agreed between us and Bear Stearns (for itself and on behalf of the Underwriters) but in any event no later than Monday, 29 October 2007. If the Underwriting Agreement is not signed or the Placing Price is not agreed or the termination rights referred to in the section headed "Underwriting" in this prospectus are exercised, the International Placing will not proceed.

The Placing Price will not be more than HK\$13.18 per Share and is currently expected to be not less than HK\$11.18 per Share. Bear Stearns (for itself and on behalf of the other Underwriters) may, with the consent of us, reduce the aforesaid indicative Placing Price range below that stated in this prospectus. Potential investors should be aware that the Placing Price to be determined at or before the Price Determination Date may be, but is currently not expected to be, lower than the indicative range of the Placing Price stated in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

Bear Stearns is the Global Coordinator, the Bookrunner, one of the Joint Sponsors and Joint Lead Managers of the International Placing. Subject to the execution and terms of the Underwriting Agreement (including an agreement on the Placing Price), the International Placing will be fully underwritten by the Underwriters. For further information about the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER OF THE PLACING SHARES

No action has been taken in any jurisdiction to permit the International Placing or the distribution of this prospectus as an offering document. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the International Placing in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering of the Placing Shares in any jurisdiction are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom.

The Placing Shares will be offered solely on the basis of the information contained and the representations made in an offering circular, which will contain this prospectus. No person is authorised in connection with the International Placing to give any information, or to make any representation, not contained in such offering circular. Any information or representation not contained therein may not be relied upon as having been authorised by us, the Joint Sponsors, the Underwriters, any of their respective directors, officers, employees and/or representatives or any other person involved in the International Placing.

APPLICATION FOR LISTING ON GEM

We have applied to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and which are to be issued or may be issued pursuant to the International Placing and the exercise of the Over-allotment Option and as otherwise described herein on GEM.

No part of our registered capital is listed, traded or dealt in on any stock exchange and save as herein disclosed, no such listing or permission to deal is being or proposed to be sought.

A total of 108,000,000 Shares representing approximately 20.0% of our enlarged issued share capital immediately following completion of the International Placing and the Capitalisation Issue (without taking account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and assuming the Over-allotment Option is not exercised) will be made available under the International Placing. Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, we must maintain the “minimum prescribed percentage” of (i) 25% of the issued share capital of us in the hands of the

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

public if the market capitalisation does not exceed HK\$4,000 million; or (ii) the higher of (a) the percentage that would result in the market value of the securities to be in public hands equal to HK\$1,000 million (determined at the time of listing); and (b) 20% if the market capitalisation is over HK\$4,000 million.

Only securities registered on our branch register of members kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

REGISTRATION AND STAMP DUTY

All Shares in issue and to be issued as mentioned in this prospectus shall be registered on the Company's branch register of members maintained by Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, our Hong Kong branch share registrar. Our principal register of members will be maintained by Bank of Bermuda (Cayman) Limited in the Cayman Islands.

Only Shares registered on our Hong Kong branch register of members may be traded on GEM. Dealings in Shares registered on our branch register of members kept in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of us, the Directors, the Joint Sponsors, the Underwriters, their respective directors, agents or advisors or any other person involved in the International Placing accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

Details of the structure of the International Placing, including conditions, are set out under the section headed "Structure and conditions of the International Placing" in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue, the International Placing and any Over-allotment Shares on GEM by the GEM Listing Committee and compliance by the Company with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

CORPORATE INFORMATION

Registered office	Scotia Centre 4th Floor, P.O. Box 2804 George Town Grand Cayman Cayman Islands
Head office and principal place of business in Hong Kong	908, Hutchison House 10 Harcourt Road Central Hong Kong
Company website	www.nd.com.cn (information on this website does not form part of this prospectus)
Compliance officer	Liu Luyuan
Company secretary	Tam Hon Shan, Celia, HKICPA, ACCA
Qualified accountant	Tam Hon Shan, Celia, HKICPA, ACCA
Audit committee	Chao Guowei, Charles (<i>the chairman</i>) Lee Kwan Hung Liu Sai Keung, Thomas
Remuneration committee	Lee Kwan Hung (<i>the chairman</i>) Chao Guowei, Charles Liu Sai Keung, Thomas
Nomination committee	Liu Sai Keung, Thomas (<i>the chairman</i>) Chao Guowei, Charles Lee Kwan Hung
Authorised representatives (for the purpose of the GEM Listing Rules)	Liu Luyuan Block 1, Huaifu Garden No. 160, Wusi Road Fuzhou Fujian The PRC Tam Hon Shan, Celia, HKICPA, ACCA Flat 1701, 17/F Man Hong House Model Housing Estate North Point Hong Kong
Compliance adviser	First Shanghai Capital Limited

CORPORATE INFORMATION

Principal bankers

Bank of Communications
No.125, Wusi Road
Fuzhou
The PRC

Bank of America
1196 S Diamond Bar Blvd.
Diamond Bar
CA
USA

The Hongkong & Shanghai Banking Corporation
673 Nathan Road
Mongkok
Kowloon
Hong Kong

Principal share registrar and transfer office in the Cayman Islands

Bank of Bermuda (Cayman) Limited
P.O. Box 513, Strathvale House
North Church Street
George Town
Grand Cayman KY1-1106
Cayman Islands

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Liu Dejian	Room 518, 5th Floor New Building 58 Hot Spring Branch Road Fuzhou Fujian The PRC	Chinese
Liu Luyuan	Block 1, Huaifu Garden No. 160, Wusi Road Fuzhou Fujian The PRC	Chinese
Zheng Hui	Room 1106, 20th Floor Wuyi Green Building 379 Fu Guang South Road Ao Feng Street Tai Jiang District Fuzhou Fujian The PRC	Chinese
Chen Hongzhan	House 2105, Zone B Jinyuan Garden Liuyi North Road Fuzhou Fujian The PRC	Chinese
<i>Non-executive Directors</i>		
Lin Dongliang	Room 2005, Unit 3, Building 1 No. 12 Ande Road Dongcheng District Beijing The PRC	Chinese
Zhu Xinkun	No. 15, Lane 377 Chen Hui Road Shanghai The PRC	Chinese

DIRECTORS

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Chao Guowei, Charles	20F, Ideal Plaza No.58 Bei Si Huan Xi Road Haidian District Beijing The PRC	American
Lee Kwan Hung	Flat G, 21st Floor, Block 7 South Horizons, Apleichau Hong Kong	Chinese
Liu Sai Keung, Thomas	Flat 5H, Block 2 Park Avenue 6 Chao Yang Park South Road Chao Yang District Beijing The PRC	Chinese

PARTIES INVOLVED IN THE INTERNATIONAL PLACING

Auditors and reporting accountants	Grant Thornton 13th Floor Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Global Coordinator and Bookrunner	Bear Stearns Asia Limited 26/F, Citibank Tower 3 Garden Road Central Hong Kong
Joint Lead Managers	Bear Stearns Asia Limited 26/F, Citibank Tower 3 Garden Road Central Hong Kong First Shanghai Securities Limited 19/F, Wing On House 71 Des Voeux Road Central Hong Kong
Joint Sponsors	Bear Stearns Asia Limited 26/F, Citibank Tower 3 Garden Road Central Hong Kong First Shanghai Capital Limited 19/F, Wing On House 71 Des Voeux Road Central Hong Kong
Underwriters	Bear Stearns Asia Limited 26/F, Citibank Tower 3 Garden Road Central Hong Kong First Shanghai Securities Limited 19/F, Wing On House 71 Des Voeux Road Central Hong Kong Cazenove Asia Limited 50th Floor, One Exchange Square 8 Connaught Place Central Hong Kong

PARTIES INVOLVED IN THE INTERNATIONAL PLACING

Legal advisers to the Company

As to Hong Kong law:
Arculli Fong & Ng
(in association with King & Wood, PRC Lawyers)
908, Hutchison House
Central
Hong Kong

As to United States law:
Morgan, Lewis & Bockius, LLP
2 Palo Alto Square
3000 El Camino Real
Palo Alto, CA94306
USA

As to PRC law:
Dacheng Law Offices
12/F, Guohua Plaza
No. 3 Dongzhimenan Avenue
Dongcheng District
Beijing
The PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY-1111
Cayman Islands

Legal advisers to the Joint Sponsors and the Underwriters

As to Hong Kong and United States laws:
Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC law:
Fangda Partners
20/F, Kerry Centre
1515 Nan Jing West Road
Shanghai
The PRC

Property valuer

Sallmanns (Far East) Limited
22nd Floor
Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong

INDUSTRY OVERVIEW

Certain information and statistics provided in the section below or other sections in this prospectus are derived from government official sources. No independent verification has been carried out on information and statistics derived from such sources. We have taken reasonable care in the reproduction of such information and statistics. The Company, the Joint Sponsors, the Underwriters, their respective directors and advisers or any other party involved in the International Placing make no representation as to the accuracy of those information, which may not be consistent with each other or with other information complied within or outside the PRC. Accordingly, such information contained herein may not be accurate and should not be unduly relied upon.

GROWTH OF INTERNET IN THE PRC

The Internet usage in China has experienced rapid growth in recent years. China currently has the second largest number of Internet users in the world. According to CNNIC, number of Internet users in the PRC grew from 33.7 million in 2001 to 137.0 million in 2006, representing a CAGR of 32.4%. The following table sets forth certain information related to the Internet in China during the period from 2001 to 2006:

	2001	2002	2003	2004	2005	2006	CAGR (2001-2006)
China's population (in millions)	1,267	1,285	1,292	1,300	1,308	1,314	0.7%
Per capita annual disposable income of city households (RMB)	6,860	7,703	8,472	9,422	10,493	11,759	11.4%
% growth in per capita annual disposable income of city households		12.3%	10.0%	11.2%	11.4%	12.1%	
Internet players (in millions)	33.7	59.1	79.5	94.0	111.0	137.0	32.4%
Internet penetration	2.6%	4.6%	6.2%	7.2%	8.5%	10.5%	N/A

Source: National Bureau of Statistics of China, CNNIC, January 2007.

Despite the rapid growth in the Internet user base in the PRC, the penetration rate of Internet has only reached 10.5% in 2006. According to "China Gaming 2007-2011 Forecast and Analysis" prepared by IDC in April 2007 (the "IDC Report"), China's Internet population is projected to increase at a CAGR of 8.8% from 2006 to 2011.

The growth in broadband access has helped contribute the growth of the Internet market in the PRC. According to the IDC Report, the broadband subscriber population reached 48.7 million in 2006, up 29.0% over 2005 and is projected to increase at a CAGR of 10.1% from 2006 to 2011. Broadband access provides faster download speeds for Internet users and enables provisions of richer online content.

The increase in Internet users and the growth in broadband access in the PRC have helped the rapid development of the online gaming.

INDUSTRY OVERVIEW

OVERVIEW OF THE ONLINE GAME INDUSTRY

Online games are mostly played on PCs over some forms of computer network, such as the Internet. Online games range from simple text based games to games incorporating complex graphics and virtual worlds participated by many players simultaneously. Many online communities have also been created by the players, making online games a form of social activity beyond single player games.

Online games are mainly classified into two general categories:

- *MMORPGs*. MMORPGs are a genre of online role-playing video games (RPGs) in which a large number of players interact with one another in a virtual world. As in all RPGs, a player assumes the role of a fictional character (most commonly in a fantasy setting) and takes control over many of that character's actions. MMORPGs are distinguished from single-player or small multi-player RPGs by the number of players involved, and by the game's persistent world, usually hosted by the game's publisher, which continues to exist and evolve while the player is away from the game.
- *Online casual games*. Online casual games usually have a few simple rules and engaging game designs, making them easy for a new player to begin playing the game in just a few minutes. Casual games require no long-term time commitment or special skills to play, and there are comparatively low production and distribution costs for the producer.

According to a report titled "Online Game Market Forecasts 2007" published by DFC Intelligence, worldwide online game revenue increased from US\$592 million in 2001 to US\$4.5 billion in 2006, representing a CAGR of 49.9% from 2001 to 2006. This revenue is forecast to grow further to US\$12.3 billion in 2011, representing a CAGR of 22.3% from 2006 to 2011.

East Asia, including the PRC, Korea, Taiwan, Hong Kong and Singapore, accounted for 46.6% of worldwide revenue in 2006, represents the largest online game market. North America, Europe and Japan accounted for 31.2%, 15.3% and 6.9% of the worldwide revenue in 2006, respectively.

Total number of online game players worldwide increased from 91.2 million in 2001 to 242.0 million in 2006, representing a CAGR of 21.6% from 2001 to 2006. The number of online game players is forecast to increase 35.5% from 2006 to reach 328.0 million in 2011.

INDUSTRY OVERVIEW

ONLINE GAME INDUSTRY IN THE PRC

In 2000, online games operators in the PRC formally started their commercial operations. The games began to generate revenue in late 2000 and have enjoyed high growth rate ever since. In 2006, the size of PRC online game market increased to US\$815.5 million and it is expected to further increase to US\$3.0 billion by 2011, representing a CAGR of 30.2% from 2006 to 2011. The following table illustrates the historical and expected growth of the PRC online game market during the period from 2002 to 2011:

	Online Game Revenue <i>(US\$ million)</i>	Annual increase %
2002	109.8	—
2003	159.2	45.0
2004	298.0	87.2
2005	459.8	54.3
2006	815.5	77.4
2007	1,229.4	50.8
2008	1,663.3	35.3
2009	2,199.5	32.2
2010	2,620.9	19.2
2011	3,046.1	16.2

Source: the IDC Report and an article entitled “China Gaming Market Data” published by the IDC in 2007

At the end of 2006, the PRC online game user population reached 32.6 million, an 23.8% increase over 2005. IDC forecasts that such population will increase to 69.9 million by 2011, representing a CAGR of 16.5% from 2006 to 2011.

MMORPGs have the largest player base and generates the most revenue of the online game industry in the PRC. According to the IDC Report, revenue generated by MMORPGs increased by 69.1% from 2005 to 2006 to reach US\$662 million and accounted for 81.2% of the entire online game market in the PRC in 2006. Revenue generated by casual games almost doubled in 2006 over 2005 and was estimated at US\$153 million and accounted for 18.8% of the online game market in the PRC in 2006.

The business models of online game operators have expanded from the pay-to-play model to include multiple profit models. In the pay-to-play model, revenue is generated from billing the time players spent on playing games. In 2006, rapid adoption of the FTP model marks a shift towards generating revenue by selling virtual commodities and value added services, including virtual items. According to the IDC Report, revenue generated from FTP games accounted for over 60% of that of the entire PRC market in 2006.

INDUSTRY OVERVIEW

Online games developed domestically have also shown a strong competitive advantage in the PRC market. According to the IDC Report, revenue generated by the PRC domestically developed online games reached RMB4.24 billion in 2006, up 87.4% from RMB2.26 billion in 2005. These games, as a percentage of the PRC online game market, increased from 59.5% in 2005 to 64.8% in 2006.

We believe that the following industry trends will continue:

- Impact of FTP games - The FTP business model becomes widely used in the PRC and many online game companies turn to the sale of virtual items and other value added services instead of charging players for the time spent on playing games. This approach will continue to evolve.
- Growth of MMORPGs and casual games - MMORPGs are expected to continue to generate most of the revenue in the online game industry. Casual games are expected to demonstrate a strong growth momentum.
- Emergence of PRC domestically developed online games - As PRC domestically developed online games become more successful in its native market, Chinese online game companies will become more mature and begin to export more “homemade” games to take advantage of the growth in the worldwide online game market.
- More diversified game contents - Online game companies will likely develop more diversified game contents to attract players and to distinguish themselves from others in the highly competitive industry.

BACKGROUND INFORMATION OF IDC AND DFC INTELLIGENCE

IDC is a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. We have paid RMB95,000 to IDC for use of certain market information, including the articles entitled “China Gaming Market Data” in this prospectus. Such market information has been quoted from IDC’s independently produced research reports. IDC relies on a variety of industry sources worldwide in determining its market data, including but not limited to, interviews with market participants, publicly released corporate information and the expertise of IDC industry analysts. IDC is a business carried on by IDG High Tech (Beijing) Co. Ltd. (愛奇高技術(北京)有限公司) (“**IDG Beijing**”), a subsidiary of International Data Group, Inc., which is the parent company of the limited partner of IDG Technology Venture Investments L.P., and the limited partner of IDG Technology Venture Investment III, L.P. IDG Beijing does not fall within the definition of an associate of the IDG Group, and hence is not our connected person under the GEM Listing Rules due to the reasons that (i) the definition of “associate” under rule 1.01 is in relation to an individual or a company and not a partnership; and (ii) International Data Group, Inc. and the limited partners of IDG Group merely play the passive function of injecting capital into the funds and have no voting or management rights in the IDG Group. IDC and IDG Beijing are therefore Independent Third Parties.

INDUSTRY OVERVIEW

DFC Intelligence is a market research and consulting firm focused on interactive entertainment, video game, online game, interactive entertainment and portable game markets. We have paid US\$1,995 to DFC Intelligence for use of certain market information in this prospectus. Such market information has been quoted from DFC Intelligence's independently produced research reports. DFC Intelligence has a database of market information, both public and private. On a regular basis, it interviews industry executives and attend private briefings. Its analysis is based on industry sales figures, coupled with its insights based on its experience. DFC Intelligence is an Independent Third Party.

We are satisfied that the information extracted from the reports prepared by IDC and DFC Intelligence in this section of this prospectus is reliable because the information was prepared by reputable international providers with access to market information and statistics.

REGULATIONS RELATING TO THE INDUSTRY

The online game industry in the PRC operates under a legal regime that consists of the State Council, which is the highest authority of the executive branch of the PRC central government, and the various ministries and authorities under its leadership. These ministries and authorities include:

- the MII;
- the MOC;
- the GAPP; and
- the NCAC.

The State Council and these ministries and authorities have issued a series of rules that regulate a number of different substantive areas of our business, which are discussed below.

REGULATION OF VALUE-ADDED TELECOMMUNICATION BUSINESS

Internet information services in the PRC are governed by the Telecommunications Regulations (電信條例) issued on 25 September 2000 by the State Council. The Telecommunications Regulations categorise all telecommunications businesses in the PRC as either basic telecommunications businesses or value-added telecommunications businesses. The Catalogue of Classes of Telecommunications Businesses (電信業務分類目錄) (updated on 21 February 2003 and effective as of 1 April 2003) that is attached to the Telecommunications Regulations provides that an Internet information service is a value-added telecommunications business. According to the Telecommunications Regulations, any commercial operator of telecommunications businesses in the PRC must obtain an operating license from MII or provincial-level communications administrative bureaus (“CAB”). The Telecommunications Regulations also set forth extensive guidelines with respect to various aspects of telecommunications operations in the PRC.

The Administrative Measures for Telecommunications Business Operating Licenses (電信業務經營許可證管理辦法) (the “**Telecom License Measures**”) were promulgated by MII on 26 December 2001 and became effective as of 1 January 2002. The Telecom License Measures, which are formulated in accordance with the Telecommunications Regulations, set forth the types of licenses required to operate a telecommunications business and the procedures for obtaining such licences. With respect to licenses for value-added telecommunications services, the Telecom License Measures draw a distinction between licenses for business conducted in a single province (which are issued by CAB) and licenses for inter-provincial activities (which are issued by MII).

In addition to the Telecommunications Regulations, Internet information services are also regulated pursuant to the Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the “**Internet Measures**”) issued on 25 September 2000 by the State Council. The Internet Measures define “Internet Information Services” as “the service activities which provide information to online players through the Internet”, and are divided into services of a commercial nature and services of a non-commercial nature. “Internet Information Service Providers” (which are

REGULATIONS RELATING TO THE INDUSTRY

commonly referred to as ICPs) that are compensated for their services (i.e., ICPs providing services of a commercial nature) are required to obtain an operation license from MII or the relevant CAB.

As advised by our PRC legal adviser, Dacheng Law Offices, under the provisions of the Catalogue of Classes of Telecommunications Businesses (電信業務分類目錄), information services based on Internet of mobile network is classified as a kind of Class 2 value-added telecommunications services (第二類增值電信業務). The holder of the value-added telecommunications business operation license (class 2) with a service scope of Internet information services will allow the holder to engage in such business. In addition, under the Administrative Measures for Telecommunication Business Operating License (電信業務經營許可證管理辦法), to obtain the value-added telecommunication business license, the applicant shall meet the following conditions - (i) the operator shall be a legally established company; (ii) it shall have funds and specialised personnel commensurate with its proposed business activities; (iii) it shall have the reputation for, or be capable of, providing long-term services to its subscribers; (iv) it shall have RMB1,000,000 of registered capital or above in case it operates within a province, autonomous region or municipality; it shall have RMB10,000,000 of registered capital or above in case it operates by spanning provinces, autonomous regions and municipalities or the whole country; (v) it shall have a feasibility study and technology regarding network formulation; (vi) it shall have the necessary site and resources; (vii) it shall have no record of illegal act which is of grave nature within recently three years. To hold and maintain the said license, the holder shall conduct telecommunication business within the authorised scope, and shall pass annual inspection on a yearly basis. The following are basic license and/or permits necessary for online game operators - (i) ICP license; (ii) network culture operation license; and (iii) business license. NetDragon (Fujian) has obtained business license, ICP license and network culture operation license. For publishing games through Internet, NetDragon (Fujian) is relying on third party for Internet publishing activities. As confirmed by the Directors and the Company's PRC legal adviser, Dacheng Law Offices, the Group in compliance with all related requirements.

In addition, the MII Notice requires that ICP license holders or their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. The MII Notice further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all the value-added telecommunication service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. The MII Notice prohibits ICP license holders from leasing, transferring or selling its telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications business in the PRC. Further, the local authorities in charge of telecommunications services were required to ensure that existing ICP license holders conducted a self-assessment of their compliance with the MII Notice and to submit status reports to the MII before November 2006. NetDragon (Fujian), being our ICP license holder, has conducted and filed a self-assessment of its compliance with the MII Notice covering mainly (i) ownership of domain names; (ii) ownership of trademarks; (iii) ownership of operating sites, servers and facilities; and (iv) Internet information safety protection measures in October 2006. As confirmed by our PRC legal adviser, Dacheng Law Offices, NetDragon (Fujian), being the ICP license holder, owns the domain names and trademarks used in its daily operation.

REGULATIONS RELATING TO THE INDUSTRY

Details of the domain names and trademarks are set out in “Further information about the business - Intellectual property” to Appendix V of this prospectus. NetDragon (Fujian) also has the necessary facilities for its approved business operations and it has maintained such facilities in the regions covered by its license. The trademarks owned by TQ Digital are trademarks of online game software products which are not the trademarks used by NetDragon (Fujian) for the services under its ICP license. In addition, the Structure Contracts do not involve any leasing, transferring or selling NetDragon (Fujian)’s ICP license to TQ Digital in any form, nor provide any resource, sites or facilities to TQ Digital for illegal operation of telecommunications business in the PRC. Accordingly, we and our PRC legal adviser, Dacheng Law Offices, confirm that (i) NetDragon (Fujian) complies with all the provisions in the MII Notice, including but not limited to the requirements on NetDragon (Fujian) relating to its ownership of domain names, trademarks and operating facilities; and (ii) the Structure Contracts will not be construed as some form of transfer of the ICP license from NetDragon (Fujian) to TQ Digital or provision of resources or sites or facilities from NetDragon (Fujian) to TQ Digital, thereby contravening the MII Notice. In addition, we rely on an Independent Third Party for the license from the GAPP, which is fundamental to our business, to publish our games. As confirmed by our PRC legal adviser, Dacheng Law Offices, the licensing arrangement to publish our games does not involve any leasing, transferring or selling NetDragon (Fujian)’s ICP license to a third party in any form, nor provide any resource, sites or facilities to a third party for illegal operation of telecommunications business in the PRC. Accordingly, we and our PRC legal adviser, Dacheng Law Offices, confirm that such arrangement does not constitute a breach of the condition imposed by the MII Notice.

As an ICP operator providing ICP services in multiple provinces, NetDragon (Fujian) is required to hold an ICP license issued by MII to provide Internet information services. NetDragon (Fujian) received on 20 January 2005, an MII-issued ICP license valid until 20 January 2010 to operate throughout the PRC. In addition, as advised by our PRC legal adviser, Dacheng Law Offices, NetDragon (Fujian) has passed the 2005 and 2006 annual inspection of its ICP license in June 2006 and August 2007, respectively, which proved that the operation of NetDragon (Fujian) is legally and effectively operating its business under the scope of its ICP license.

FOREIGN OWNERSHIP RESTRICTIONS

Pursuant to the Administrative Provisions on Foreign-invested Telecommunication Enterprises (外商投資電信企業管理規定) issued on 11 December 2001, foreign ownership of companies that provide Internet content services, are limited to 50%. In addition, there are specific qualification requirements for foreign investors to invest in this area. The Company is registered in the Cayman Islands thus classified as a foreign company under PRC law. Due to the restrictions to foreign investment in value-added telecommunication business and other restrictions related to online game operations (as described in other paragraphs of this section), our online game business in the PRC are operated through NetDragon (Fujian).

In the opinion of Dacheng Law Offices, our PRC legal adviser, (1) the ownership structures of TQ Digital, NetDragon (Fujian) and NetDragon (Shanghai), all currently and after giving effect to the International Placing, are in compliance with existing PRC laws and regulations, (2) the contractual arrangements between TQ Digital and NetDragon (Fujian) and its equity holders are valid and binding,

REGULATIONS RELATING TO THE INDUSTRY

and will not result in any violation of PRC laws or regulations currently in effect; and (3) the business operations of TQ Digital, NetDragon (Fujian) and NetDragon (Shanghai), as described in this prospectus, are in compliance with existing PRC laws and regulations in all aspects which may affect our business and operation.

REGULATION OF ONLINE CULTURAL ACTIVITIES

Pursuant to the Internet Culture Regulations, the MOC shall be responsible for making guidelines, policies and planning for the development and administration of Internet culture, supervising the Internet cultural activities nationwide, applying a permit system to operational Internet cultural entities in accordance with the relevant laws, regulations and rules, applying a record system to non-operational Internet cultural entities, overseeing the contents of Internet culture, and punishing the acts in violation of the relevant regulations of the state. The administrative department of culture under the people's government of the province, autonomous region or municipality directly under the central government of the PRC are responsible for, within its own jurisdiction, the daily administration of Internet cultural activities, the preliminary examination of the entities that apply to engage in operational Internet cultural activities, the examination of entities that apply to engage in non-operational Internet cultural activities, and the imposition of punishments on the acts of engaging in Internet cultural activities in violation of the relevant regulations of the state. A commercial operator of online games must, in addition to ICP license, obtain an Internet culture operation license from the appropriate culture administrative authorities for its operation of online games. Foreign invested enterprises are currently not allowed to apply for Internet culture operation license. Furthermore, imported online games are subject to a content review and approval by the MOC while domestic developed online games shall also be filed with the MOC within sixty (60) days after commencement of operation in the PRC. NetDragon (Fujian) is subject to the Internet Culture Regulations when engaging in Internet cultural activities.

On 13 October 2004, NetDragon (Fujian) obtained the Internet culture operation license (網絡文化經營許可證) pursuant to the Internet Culture Regulations. Its scope of operations is operating game products through the Internet. As confirmed by our PRC legal adviser, Dacheng Law Offices, NetDragon (Fujian) has filed with the MOC the PRC domestically developed online games in accordance with the relevant PRC laws and regulations.

REGULATION OF INTERNET PUBLISHING

According to the Tentative Measures for Internet Publication Administration (互聯網出版管理暫行規定) issued on 27 June 2002, the provision of online games is deemed to be an Internet publication activity, defined as any act by an Internet information service provider to select, edit and process content or programmes and to make such content or programmes publicly available on the Internet. Therefore, an operator must obtain the approval from the press and publication administrative authorities as an Internet publisher in order to carry on online game publishing businesses in the PRC. Furthermore, the distribution of online game cards are subject to a licensing requirement.

REGULATIONS RELATING TO THE INDUSTRY

During the Active Business Pursuit period, we have engaged an Independent Third Party to publish the online games operated by NetDragon (Fujian) in the Internet. As confirmed by our PRC legal adviser, Dacheng Law Offices, that third party is an entity qualified to publish in the Internet. NetDragon (Fujian)'s engagement of that third party to publish its operated online games does not violate any mandatory laws and regulations in the PRC. The agreement entered into between NetDragon (Fujian) and the third party is legal and effective.

REGULATION OF INTERNET CONTENT

The PRC government has promulgated measures relating to Internet content through a number of ministries and authorities, including the MII, the MOC and the GAPP. These measures specifically prohibit Internet activities, which includes the operation of online games, that result in the publication of any content which is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise State security or secrets.

In 2005, GAPP issued Trial Standards for Development of 'Anti-addiction System' (防沉迷系統開發標準(試行)) to promote the development of anti-addiction system which may limit the amount of time that a minor or other user may continuously spend on an online game. On 5 April 2007, eight PRC governmental authorities, including the Ministry of Education (教育部), MII, GAPP and the Ministry of Public Security (公安部) jointly promulgated the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Psychological Health of Minors (關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知). Under this notice, we are required to develop a system for our online games which is aimed to reduce "fatigue time" and "unhealthy time" such that, when a user has been playing an online game for more than three hours, he or she will automatically be sent periodic warnings within the game environment prompting him or her to leave the game and take a break. Such warnings will become more frequent as the user accumulates more playing time. In addition, this system will cause the rate at which the game user can obtain experience points and other virtual assets such as special equipment to decrease to half of normal levels during the "fatigue time" period and to zero during the "unhealthy time" period. If the user goes offline for more than five hours, the available "healthy" playing time will be reset and the user may play the game again normally for an additional three hours before once again entering "fatigue time". According to the anti-addiction notice, the anti-addiction system shall be put into operation in all online games from 16 July 2007.

We have adopted a system to comply with the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Psychological Health of Minors (關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知). Under this system, if a user has been playing our online game for more than three hours, he or she will automatically be sent periodic warnings prompting him or her to leave the game and take a break. Such warnings will become more frequent as the user accumulates more playing time. In addition, our system will cause the rate at which the game user can obtain experience points and other virtual assets such as special equipment to decrease to half of normal levels during the "fatigue time" period and to zero during the "unhealthy

REGULATIONS RELATING TO THE INDUSTRY

time” period. If the user goes offline for more than five hours, the available “healthy” playing time will be reset and the user may play the game again normally for an additional three hours before once again entering “fatigue time.

REGULATION OF SOFTWARE DEVELOPMENT ACTIVITIES

The Administrative Measures on Software Products (軟件產品管理辦法) promulgated by MII on 27 October 2000 (the “**Software Measures**”) regulate development and sale of computer software or software embedded in information systems or equipment provided to players and computer software in conjunction with computer information systems integration or application services or other technical services (“**software products**”) in the PRC. The Software Measures prohibit the development, production, sale or import of software products that infringe third party intellectual property rights, contain computer viruses, endanger the safety of computer systems, contain content prohibited by the State or do not comply with PRC software standards.

All software products to be sold or operated in the PRC must be tested by an MII approved testing organisation and registered with MII or relevant CAB pursuant to the Software Measures. The registration is valid for a five year period and can be renewed. The Software Measures require software products manufacturers to have a business scope that includes software business, have the conditions and technical strength for software manufacturing, a fixed manufacturing base and the procedures and capability to guarantee product quality.

We have taken all necessary actions to comply with the relevant laws and regulations in operating our software products in the PRC.

REGULATION ON SOFTWARE IMPORT AND EXPORT

We are required to register with the relevant local authority of Ministry of Commerce of the PRC any license agreement with a foreign licensor or licensee that involves an import or export of technologies, including online game software into or outside the PRC. Without that registration, we may not remit licensing fees out of the PRC to any foreign game licensor or collect any licensing fees into the PRC from any foreign licensees. In addition, the MOC requires us to submit for its content review and approval of any online games we want to license from overseas game developers. Furthermore, the NCAC requires us to register copyright license agreements relating to imported software. Without the NCAC registration, we are not allowed to publish or reproduce the imported game software in the PRC.

As at the Latest Practicable Date, we did not encounter any difficulties in making payments out of China or collecting payments into China under any agreements with foreign parties. We further confirm that we will take all necessary actions to comply with the relevant laws and regulations should such obligation arises in the future.

REGULATIONS RELATING TO THE INDUSTRY

REGULATION ON INTERNET CAFES

Internet cafes are required to obtain a license from the MOC and the SAIC, and are subject to requirements and regulations with respect to location, size, number of computers, age limit of customers and business hours. Although we do not own or operate any Internet cafes, many Internet cafes distribute our pre-paid cards. The PRC government has promulgated several regulations administrating Internet cafes illustrating its intention of intensifying the regulation of Internet cafes, which are currently the primary venue for our players to play online games. The State Council issued the Notice on the Special Regulation against Internet Cafes and Other Internet Access Service Business (國務院辦公廳轉發文化部等部門關於開展網吧等互聯網上網服務營業場所專項整治意見的通知) in February 2004 to overhaul Internet cafes and suspend the issuance of new Internet cafe licenses for a period. In November 2004, the SAIC issued the Circular for Further Strengthening the Special Regulation against Internet Cafes (關於進一步深化網吧專項整治工作的通知) further tightening the restrictions on the establishment of Internet cafes. In February 2007, fourteen PRC governmental agencies, including the MOC, MII and GAPP jointly promulgated the Circular for Further Strengthening the Administration of Internet Cafe and Online Games (關於進一步加強網吧及網絡遊戲管理工作的通知) (the “**Circular**”). According to the Circular, no new Internet cafe should be approved in 2007, and the regulation of existing Internet cafes should be strengthened.

As at the Latest Practicable Date, we did not operate any Internet cafes. However, restrictions on development of Internet Cafes, the major venue for the players to play online games, may negatively affect our business operation. Please see the risk factor set out in “Risk factors - Risks relating to the industry in which we operate - Control or Internet access and the distribution of news, information or other content on Internet in the PRC may adversely affect our business” of this prospectus.

REGULATION ON VIRTUAL CURRENCY

On 15 February 2007, 14 governmental authorities, including the MOC, the MII, the SAIC, and the People’s Bank of China (the “**PBOC**”), jointly issued the Circular. According to the Circular, the administration of the PBOC on virtual currencies issued by online game operators for the players’ use in online games has been emphasised in order to avoid the potential impact of such virtual currencies on the live financial system. The volume of issuance and purchase of such virtual currencies shall be limited and such virtual currencies shall not be used for purchase of any physical products or refunded with a premium or otherwise illegally traded. As confirmed by our PRC legal adviser, Dacheng Law Offices, although the Circular provides that the volume of issuance and purchase of virtual currencies shall be limited, it does not specify expressly the amount of limit thereon. As at the Latest Practicable Date, the PBOC has not issued any further circular, notice or provision which imposes the specific volume restriction on virtual currencies that may be issued by online game operators and purchased by online game players.

As at the Latest Practicable Date, we have been in compliance with the relevant regulation on virtual currency, under which no virtual currencies can be used for purchase of any physical products or refunded with a premium or otherwise illegally traded.

REGULATIONS RELATING TO THE INDUSTRY

REGULATIONS ON INTERNET SECURITY

The National People's Congress enacted the Determination in Relation to Protection of the Internet Security (關於維護互聯網安全的決定) in December 2000. The following acts may subject to criminal punishment in the PRC: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information or obscenity; (iii) leak state secrets; (iv) spread false commercial information; and (v) infringe intellectual property rights.

The Ministry of Public Security has promulgated measures that prohibit use of the Internet that result in the leakage of state secrets or the spread of socially destabilising content. The Ministry of Public Security has supervision and inspection rights in this regard, and we may be subject to the jurisdiction of the local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites.

As confirmed by our PRC legal adviser, Dacheng Law Offices, we have been in compliance with the regulations on Internet security.

INTELLECTUAL PROPERTY RIGHTS

The State Council and the NCAC have promulgated various regulations and rules relating to protection of software in the PRC. Under these regulations and rules, software owners, licensees and transferees may register their rights in software with the NCAC or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may receive better protections.

Registered trademarks in the PRC are protected under the Trademark Law (商標法) adopted in 1982 and revised in 1993 and 2001. Trademarks can be registered with the Trademark Office of the SAIC for renewable ten-year periods. Trademark license agreements are required to be filed with the Trademark Office of the SAIC.

The MII issued the Administrative Measures on PRC Internet Domain Names (中國互聯網絡域名管理辦法) in the PRC in 2004. The regulation prohibits the registration and use of domain names with the following content that may (i) be in violation of the basic principles set forth in the PRC constitution; (ii) jeopardise state security, disclose any state secret, subvert state power or harm national unification; (iii) damage state honor or interests; (iv) incite ethnic hatred or discrimination or damage ethnical unity; (v) harm state religious policies or advocate heresy or feudal superstition; (vi) disseminate rumors, disrupt social order or sabotage social stability; (vii) disseminate obscenity, pornography or induce gambling, violence, murder, terror or other crimes; (viii) humiliate or slander any other person, or infringe the legal interests of any other person; or (ix) be otherwise prohibited by the PRC laws or administrative regulations.

REGULATIONS RELATING TO THE INDUSTRY

Domain name disputes are governed by the Measures on Domain Name Dispute Resolution of PRC Internet Network Information Center (中國互聯網絡信息中心域名爭議解決辦法) promulgated by the CNNIC, and amended in February 2006 and becoming effective as of March 2006, under which the CNNIC can authorise domain name dispute resolution institutions to decide such disputes.

In May 2006, the State Council promulgated the Regulations on Protection of the Right of Dissemination through Information Networks (信息網絡傳播權保護條例), which became effective in July 2006. The regulation requires that every organisation or individual who disseminates a third party's work, performance, audio or visual recording products to the public through information networks shall obtain permission from, and pay compensation to, the legitimate copyright owner of such products, unless otherwise provided under relevant laws and regulations. The legitimate copyright owner may take technical measures to protect his or her right of dissemination through information networks and any organisation or individual shall not intentionally avoid, destroy or otherwise assist others in avoiding such protective measures unless permissible under law.

Under the provisions of the Regulations on Protection of Computer Software (計算機軟件保護條例) and the Measures on Registration of Computer Software Copyright (計算機軟件著作權登記辦法), computer software registered under the provisions can be better protected since the registration of computer software under the provisions can be taken as proof to the software copyright ownership in a computer software copyright dispute.

As at the Latest Practicable Date, we have conducted necessary software products registration and software copyrights registration for our online games necessary for our operation. As confirmed by our PRC legal adviser, Dacheng law offices, we are currently in compliance with all the relevant PRC laws and regulations in relation to the intellectual property rights.

PRIVACY PROTECTION

PRC law does not prohibit Internet content providers from collecting and analysing personal information from their users. We require our players to accept a user agreement whereby they agree to provide certain personal information to us. PRC law prohibits Internet content providers from disclosing to any third parties any information transmitted by users through their networks unless otherwise permitted by law. If an Internet content provider violates these regulations, the MII or its local bureaus may impose penalties and the Internet content provider may be liable for damages caused to its users.

As at the Latest Practicable Date, we have not violated the privacy protection law in relation to the personal information we have collected.

REGULATIONS RELATING TO THE INDUSTRY

REGULATION ON FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (外匯管理條例) which was issued by the State Council in January 1996 and became effective in April 1996 and amended in January 1997. Under these rules, RMB is freely convertible for payments of current account items, including trade and service related foreign exchange transactions and dividend payments, but not for expenses of capital, including direct investment, loan or investment in securities outside the PRC unless the prior approval of the SAFE has been obtained. Under the Foreign Currency Administration Rules (外匯管理條例), foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular No. 75**"), issued on 21 October 2005, (i) PRC resident, shall register with the local branch of SAFE before it establishes or controls an overseas special purpose vehicle (the "**overseas SPV**"), for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interests into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material event outside of the PRC, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. In May 2007, SAFE issued guidance to its local branches with respect to the procedures for SAFE registration which strengthens the supervision on registrations pursuant to SAFE Circular No.75 and impose obligations on onshore subsidiaries of the overseas SPVs to coordinate and supervise the relevant PRC residents to complete registration.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to overseas SPV, and penalties.

In accordance with the SAFE Circular No.75, 11 of the beneficial owners of the Company who are PRC residents have conducted the overseas investment registration with Fuzhou Economic and Technical Development Zone Branch of SAFE for their respective overseas investment in us.

As confirmed by our PRC legal adviser, Dacheng Law Offices, we have been in compliance with the regulations on foreign currency exchange. Please also refer to "Risk Factors - Risks relating to

REGULATIONS RELATING TO THE INDUSTRY

the operations in the PRC - PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or us to penalties and otherwise adversely affect us” for the impact of the strengthened regulations on us.

Regulations Relating to Employee Share Options

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則) (the “**Individual Foreign Exchange Rule**”), issued on 5 January 2007 by SAFE and relevant guidance issued in March 2007, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option plan or share incentive plan are required, through the PRC subsidiary of such overseas listed company or any other qualified PRC agent, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company may be remitted into a foreign currency account of such PRC citizen or be exchange into RMB. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator, appoint a custodian bank and open dedicated foreign currency accounts to handle transactions relating to the share option scheme or other share incentive plan. We and our PRC citizen employees who will be granted share options (including the share options under the Share Option Scheme), or PRC option holders, will be subject to these rules upon the listing of our Shares on the GEM. Please also refer to “Risk Factors - Risks relating to the operation in the PRC - Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees’ share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions” of this prospectus.

As confirmed by our PRC legal adviser, Dacheng Law Office, the Individual Foreign Exchange Rule does not have any impact to our adoption of the Share Option Scheme since no share options under the Share Option Scheme have been granted. When such share options are granted to our PRC citizen employees, such employees and we will have to comply with the Individual Foreign Exchange Rule.

REGULATION ON DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends paid by PRC wholly foreign-owned enterprises include (i) PRC Company Law (中華人民共和國公司法); (ii) Wholly Foreign-Owned Enterprise Law (中華人民共和國外資企業法); and (iii) Wholly Foreign-Owned Enterprise Law Implementing Rules (中華人民共和國外資企業法實施細則). Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

As confirmed by our PRC legal adviser, Dacheng Law Offices, we have been in compliance with the regulations on dividend distribution.

REGULATIONS RELATING TO THE INDUSTRY

ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

In August 2006, six PRC regulatory agencies promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the “**M&A Rules**”) regulating the mergers and acquisitions of domestic enterprises by foreign investors. The M&A Rules became effective in September 2006 and the rules, among other things, purport to require that an offshore special purpose vehicle (“**SPV**”) formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange, especially in the event that the SPV acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. In September 2006, the CSRC published procedures specifying documents and materials required to be submitted for CSRC approval under the M&A Rules. The application of the M&A Rules are subject to interpretation.

Our PRC legal adviser, Dacheng Law Offices, advised that the M&A Rules do not require the CSRC approval for the listing of the Company on the Stock Exchange because (i) we have completed the acquisitions of the relevant PRC companies and obtained all necessary approvals from the relevant PRC authorities before 8 September 2006, the date on which the M&A Rules became effective, and (ii) such acquisitions were based on cash consideration and did not involve the exchange of shares of offshore companies.

However, our PRC legal adviser, Dacheng Law Offices, cannot rule out the possibility that the CSRC may require, either by interpretation or clarification of the M&A Rules or by any new rules, regulations or directives or in any other ways promulgated after the date of its legal opinion, that overseas listings of all SPVs (or those involving the acquisition of the PRC companies based on cash consideration before September 2006) must obtain the approval from the CSRC. If we are required to obtain CSRC approval, we will make an announcement to the public immediately.

REGULATIONS ON NETDRAGON (USA)

NetDragon (USA) has been in the business of providing support services for our business operation since its inception. Such support services include general administrative, customer services, payment depositing and handling, online promotion and marketing, game master, management services. NetDragon (USA) does not perform any payment and debt collection services and, in addition, when remitting funds to TQ Digital, all the transfers have been carried out through normal banking procedures and do not involve any physical transportation of currency or monetary instruments.

As confirmed by our US legal adviser, Morgan, Lewis & Bockius, LLP, the nature of NetDragon (USA) does not require any permits or licenses specifically related to carrying out such business or contravene any US federal law or regulations.

REGULATIONS RELATING TO THE INDUSTRY

INTERNAL COMPLIANCE PROCEDURE

In light of the developing nature of the online game industry and the fact that there have been many regulations introduced recently, including but not limited to the MII Notice and regulations on Internet Cafes, virtual currency and anti-addiction system, and the highly regulatory nature of the industry, we have two departments responsible to ensure our compliance with the relevant PRC laws and regulations. Our legal department constantly checks the publications from the PRC authorities to ensure we have obtained all the licenses and legal documents for our game development and operation. Our legal department coordinates with different governmental departments regarding the regular inspection of our operation as well as application, renewal and filing of our licenses and intellectual property documents. Our legal department is led by Lin Yun. Miss Lin was graduated from Jianlian College of Finance and Economics (建聯財經專科學校) with a major in Accounting. She has been responsible for our public relationship and the legal department since 2002. Miss Lin has been working with various of government departments on our industry regulations for years. Our quality assurance department constantly reviews our game content to ensure compliance with the requirements of the relevant PRC authority. Our quality assurance department is led by Huang Xiaoxi. Mr. Huang graduated from the law department of Hangzhou University of Commerce (杭州商學院). He joined us in June 2006 and has leveraged his legal background to set up the content evaluation criteria for us to comply with the industry regulation. Both our legal department and quality assurance department have been working closely with constant meetings being held to ensure that our online games have met the applicable legal requirements in the PRC. In addition, we have also engaged a law firm in Fujian as our external counsel providing us advice on our operation and legal compliance with the PRC laws and regulations.

As confirmed by our PRC legal adviser, Dacheng Law Offices, we have been in compliance with the relevant PRC laws and regulations which would affect our existing operation and business since our establishment. We further confirm that (i) there has not been any breach of applicable laws and regulations in connection with the industry regulations and corporate governance by us which would affect our existing operation and business, and (ii) our management systems and corporate governance practices, our records in protecting Shareholders' interests and our financial resources are in compliance with the applicable laws and regulations.

We have also adopted internal procedure relating to our financial activities. As led by our qualified accountant, Tam Hon Shan, Celia, details of which are set out in the section headed "Directors, senior management and staff" of this prospectus, we have a team of 10 members in the finance department. They are well educated with finance background and related professional experience. We have also established a system for regular reporting of financial information. Quarterly financial information is provided to our Board for discussion with explanations noted for any material variances. Before Tam Hon Shan, Celia joined us in April 2007, our finance team was led by another qualified accountant, Wang Jiangning. Mr. Wang graduated with a tertiary certificate in Industrial Accounting from Fujian Zhonghua Vocational University in 1993 and has over 14 years of experience in financial management. The audit accounts of our group members in the PRC are prepared in accordance with the PRC accounting standards and the Directors have confirmed that there is no non-compliance in this regard since our establishment.

HISTORY AND ACTIVE BUSINESS PURSUITS

OUR OPERATION HISTORY

We started our business in 1999 by forming NetDragon (Fujian) in Fuzhou, China. Initially, NetDragon (Fujian)'s principal business was to provide Internet services.

NetDragon (Fujian) successfully established an online game portal, www.17173.com, in 2001. We also started to develop online games in order to diversify our business in that year.

We launched our first online game, *Monster & Me*, a MMORPG, in July 2002. We continued to develop online games with a focus on MMORPGs. The Chinese version of one of our flagship online games, *Conquer Online*, was launched in September 2003. In November 2003, we sold our www.17173.com to Sohu.com Limited, an Independent Third Party, for US\$20,500,000. The consideration was settled in full in November 2003.

To expand our business in the non-Chinese language market, we launched the English version of *Conquer Online* in January 2004. We also launched our third online game, *Era of Faith*, in June 2004.

We entered into a license agreement with Ubisoft in July 2004 to obtain an exclusive license to develop and operate an MMORPG using the elements of *Heroes of Might and Magic*, a PC game owned by Ubisoft, throughout Asia. Ubisoft is a computer and video game publisher and developer listed on the Paris Stock Exchange. Under the license agreement with Ubisoft, we have committed to incur a total development budget of US\$2 million. The terms of the license agreement are for four years commencing from 6 July 2004 or three years from first release of the game in the PRC, whichever is the latest. Ubisoft and we will jointly own the game and server programs. We have the right to publish the game in Asia and Ubisoft has the right to publish the game in the rest of the world. Revenue generated from respective territories will be shared by Ubisoft and us. We have also entered into an agreement with Ubisoft with option on the distribution and sales of the box version and pre-paid cards of the game in the PRC on terms to be negotiated and determined. If Ubisoft and we are unable to reach an agreement, we will then be able to seek similar arrangement with third parties. We confirm that the terms of the license agreement has been entered into by Ubisoft and us are on normal commercial terms.

In early 2004, we also commenced the development of casual games in order to provide an alternative entertainment to our players. In addition, we launched our online portal, www.91.com, an integrated online platform providing various information and services to our players in early 2004.

ACTIVE BUSINESS PURSUITS

The following is a summary of our active business pursuits during the Active Business Pursuit Period and up to the Latest Practicable Date:

For period from 1 January 2005 to 31 December 2005

- We recorded approximately 47,000 PCU and approximately 27,000 ACU for *Conquer Online* during the period.

HISTORY AND ACTIVE BUSINESS PURSUITS

- As opposed to our diversified business including our online portal, www.91.com, casual games and MMORPGs before the Active Business Pursuit Period, we started to concentrate our development resources on MMORPGs.
- We installed our self-developed ERP system to identify and plan our enterprise resources in a more timely and effective manner.
- We further developed our direct sales channels by seeking more cooperation opportunities with online payment service providers. Payments made online accounted for approximately 52.2% of our total revenue during the period.
- We received the following awards and recognitions:
 - “Golden Plume Prize” for the Best Original Online Game at the 2005 ChinaJoy Expo (2005 年度 ChinaJoy 展會優秀遊戲評選大賽 最佳休閒類網絡遊戲金翎獎), by www.chinajoy.net;
 - Award for Overseas Promotion of Domestically Developed Games for 2005 (2005 中國民族遊戲海外拓展獎) by GAPP and MII;
 - Top 10 Game Developers in the PRC for 2005 by GAPP and MII.
- We participated in the following exhibitions:
 - E3;
 - ChinaJoy; and
 - Tokyo Game Show.
- We had a total of 702 staff in the following functions as at 31 December 2005:

Game development	391
Game operation and marketing	247
Accounting, finance and general administration	64
	702
Total	702

For the period from 1 January 2006 to 31 December 2006

- We recorded PCU and ACU of approximately 82,000 and 52,000 respectively, for Conquer Online during the period.
- We completed the development of Eudemons Online and continued to develop Zero Online and Heroes of Might and Magic Online. We also started to develop Happiness Q and Piao Miao Online.

HISTORY AND ACTIVE BUSINESS PURSUITS

- We launched the Chinese and English versions of Eudemons Online in March and June, respectively, and recorded a combined PCU & ACU of approximately 325,000 and 70,000, respectively, during 2006.
- The total number of our employees has substantially decreased from 702 on 31 December 2005 to 404 on 31 December 2006 particularly in the game development and game operation and marketing divisions due to our efforts to focus on the development of MMORPGs since 2005 as opposed to our diversified business including www.91.com, casual games and MMORPGs before the Active Business Pursuit Period.
- We developed our proprietary customer information system to track the data of our players daily, including their playing behaviour and purchasing pattern.
- We entered into various agreements in April with the subsidiaries of Shanda to engage them as one of our distribution partners, in order to expand our distribution and payment channels.
- We entered into cooperation agreements in October with Leitingwanjun and Xunlei to operate certain of our online games through their platforms.
- We obtained a license from Epic Games Inc. in October to use their Unreal 3 game engine for the development of our 3D games.
- We engaged Ogilvy in November as our advertising agent to promote our corporate image and online games.
- Due to our efforts in further developing our online payment systems, the revenue attributable to such mechanism increased to approximately 60.5% of our total revenue during the period.
- We received the award of International Software China 2006 - Gold Prize (中國國際軟件博覽會一金獎) by Organising Committee of the China International Software Expo & Technology Symposium (中國國際軟件博覽會及技術研討會組委會).
- We participated in the following exhibitions:
 - E3; and
 - ChinaJoy.

HISTORY AND ACTIVE BUSINESS PURSUITS

- We had a total of 404 staff in the following functions as at 31 December 2006:

Game development	231
Game operation and marketing	88
Accounting, finance and general administration	85
	<hr/>
Total	404

For the period from 1 January 2007 to the Latest Practicable Date

- We recorded PCU and ACU of approximately 89,000 and 63,000, respectively, for Conquer Online during the six months ended 30 June 2007.
- We recorded PCU and ACU of approximately 496,000 and 243,000, respectively, for Eudemons Online during the six months ended 30 June 2007.
- We completed the development of the Chinese version of Zero Online. We also continued to develop Happiness Q, Piao Miao Online and Heroes of Might and Magic Online.
- We launched the Chinese version of Zero Online in late April and recorded approximately 53,000 PCU and approximately 21,000 ACU for Zero Online since the launch date and up to 30 June 2007.
- To expand our shareholder base, NetDragon (BVI) raised US\$9.1 million in the first quarter by the allotment of 2,200,000 shares at a consideration of US\$4.14 per share to the IDG Group and the Other Investors (other than China Venture Capital Company Limited). On the same day, DJM Holding Ltd. transferred 1,000,000 and 200,000 shares in NetDragon (BVI) to Happy Sunshine Limited and China Venture Capital Company Limited at a consideration of US\$4,140,000 (equivalent to HK\$32,292,000) and US\$828,000 (equivalent to HK\$6,458,400), respectively. The consideration and commercial terms were negotiated between the parties at arm's length. The newly raised funds were reserved by the Company to fund its future business expansion. Further details of the shareholding structures before and after such share allotment are set out in the section headed "Statutory and general information - Further information about the Company - Changes in share capital of the Company's subsidiaries" in Appendix V to this prospectus.
- We entered into an agreement with Tencent to engage it as one of our distribution partners to expand our distribution and payment channels.

HISTORY AND ACTIVE BUSINESS PURSUITS

- We received the following awards and recognitions:
 - Most Popular Free Online Game for 2006 (2006最受歡迎免費網遊), Most Popular Online Game for 2006 (2006最受歡迎網絡遊戲), Most Popular MMORPG for 2006 (2006最受歡迎 MMORPG), Best New Online Game for 2006 (2006最佳新銳網絡遊戲) and Most Anticipated Online Game for 2007 (2007年最受期待網絡遊戲) and Best Customer Service Provider for 2006 (2006年最佳客服廠商), all by QQ.com;
 - Award for Overseas Development of Domestically Developed Games for 2006 (2006年度中國民族遊戲海外拓展獎) by GAPP and MII;
 - Top 10 Game Developers in the PRC for 2006 by GAPP and MII;
 - Best Export Product Award for 2006 (2006年度最佳出口產品獎) and Best Originality Award for 2006 (2006年度最佳原創作品獎) granted by Shanghai Municipal Information Commission and Shanghai Municipal Press Publication Bureau.

- We had a total of 527 staff in the following functions as at 30 June 2007:

Game development	309
Game operation and marketing	105
Accounting, finance and general administration	<u>113</u>
Total	<u><u>527</u></u>

HISTORY AND ACTIVE BUSINESS PURSUITS

OUR CORPORATE HISTORY

We comprise NetDragon (Fujian), NetDragon (BVI), TQ Digital, NetDragon (USA), NetDragon (Shanghai), the Company and NetDragon (HK). NetDragon (Fujian) is responsible for our online game operation in the PRC while TQ Digital is responsible for our development of online games. NetDragon (USA) provides certain administrative and customer-related services in connection with the non-Chinese versions of our games while NetDragon (Shanghai) is responsible for our sales channel and customer services. NetDragon (BVI) and the Company are our intermediate and holding companies, respectively. NetDragon (HK) is currently planned to be used as our entity in Hong Kong upon the Listing. The corporate history of our group members are as follows:

NetDragon (Fujian)

NetDragon (Fujian) was established on 25 May 1999 with limited liability in the PRC with a registered capital of RMB777,000. NetDragon (Fujian) was known as Fuzhou NetDragon Websoft Co., Ltd. (福州網龍計算機網絡信息技術有限公司). The Founding Shareholders foresaw the growth potential of the businesses carried on by NetDragon (Fujian) and therefore invited their families, relatives and friends to invest in NetDragon (Fujian) upon its establishment. The shareholding structure of NetDragon (Fujian) upon its establishment was as follows:

Name of shareholder	Registered capital (RMB)	Approximate percentage of shareholding (%)
Founding Shareholders (Note 1)	230,000	29.6
Chen Minlin	50,000	6.4
Lin Yun	30,000	3.9
Other founding shareholders (Note 2)	<u>467,000</u>	<u>60.1</u>
Total:	<u>777,000</u>	<u>100.0</u>

Notes:

1. The aggregate of approximately 29.6% interests in NetDragon (Fujian) are owned as to approximately 20.6% by Liu Dejian, approximately 6.4% by Liu Luyuan and approximately 2.6% by Zheng Hui.
2. The aggregate of approximately 60.1% interests in NetDragon (Fujian) are owned as to approximately 19.0%, 7.7%, 3.9% and 0.3%, respectively, by each of Liu Ming, Liu Shangpei, Yang Zhenxing and Yang Zhenhua (being family members of Liu Dejian and Liu Luyuan), as to approximately 3.6% and 0.5%, respectively, by each of Zhou Ying and Wu Fengfan (being our current employees), as to approximately 9.0% and 6.4%, respectively, by each of Li Xin and Zhu Wangsheng (being former employees of Fuzhou 851), as to approximately 3.2% by Chen Huiming (being a family member of our former employee) and as to approximately 2.6%, 2.6% and 1.3% by each of Guo Miaoping, Zhao Hua (being our former employees) and Dai Xiangping (being an employee of Fuzhou 851), respectively.

HISTORY AND ACTIVE BUSINESS PURSUITS

Due to the close relationship of the Founding Shareholders with the equity holders of Fuzhou 851, Fuzhou 851 was invited to invest in NetDragon (Fujian) in September 2000 in view of the sustainable growth of its business. Accordingly, on 22 September 2000, NetDragon (Fujian) increased its registered capital to RMB1,927,000 with the contribution from Fuzhou 851 and Liu Dejian for RMB1,000,000 and RMB150,000, respectively. The increase in registered capital was filed with and registered by Fuzhou City Industrial and Commercial Administration Bureau (福州市工商行政管理局) pursuant to a business licence issued on 24 October 2000.

To cope with our expanding business, on 20 November 2000, NetDragon (Fujian) further increased its registered capital to RMB10,000,000 with the contribution from Liu Dejian, Liu Ming and Liu Shangpei for RMB4,000,000, RMB4,000,000 and RMB73,000, respectively. On the same day, Fuzhou 851 transferred its interests in NetDragon (Fujian) to Liu Dejian at a cash consideration of RMB1,000,000. The aforesaid increase in registered capital and transfer of interests were filed with and registered by Fuzhou City Industrial and Commercial Administration Bureau (福州市工商行政管理局) and the relevant business licence issued on 23 November 2000.

On 31 March 2002, Li Xin, Zhu Wangsheng and Chen Huiming transferred an aggregate of 1.45% equity interests in NetDragon (Fujian) to Liu Dejian for an aggregate consideration of RMB145,000. The transfer of interests was filed with and registered by Fuzhou City Industrial and Commercial Administration Bureau (福州市工商行政管理局) and the relevant business licence issued on 8 April 2002.

On 28 July 2002, Liu Ming and Yang Zhenhua transferred an aggregate of 41.50% equity interests in NetDragon (Fujian) to Liu Dejian for an aggregate cash consideration of RMB4,150,000; Liu Shangpei and Zhou Ying transferred an aggregate of 1.61% interests in NetDragon (Fujian) to Liu Luyuan for an aggregate cash consideration of RMB161,000; Yang Zhenxing and Guo Miaoping transferred an aggregate of 0.50% equity interests in NetDragon (Fujian) to Zheng Hui for an aggregate cash consideration of RMB50,000; Dai Xiangping and Wu Fengfan transferred an aggregate of 0.14% interests in NetDragon (Fujian) to Chen Minlin for an aggregate consideration of RMB14,000; and Zhao Hua transferred his 0.20% in NetDragon (Fujian) to Lin Yun for a consideration of RMB20,000. The aforesaid transfers of equity interests were filed with and registered by Fuzhou City Industrial and Commercial Administration Bureau (福州市工商行政管理局) and the relevant business license issued on 8 August 2002.

After the transfers of interests in NetDragon (Fujian), the shareholding structure of NetDragon (Fujian) was as follows:

Name of shareholder	Registered capital (RMB)	Approximate percentage of shareholding (%)
Founding Shareholders (<i>Note</i>)	9,886,000	98.9
Chen Minlin	64,000	0.6
Lin Yun	50,000	0.5
Total:	<u>10,000,000</u>	<u>100.0</u>

Note: The aggregate of approximately 98.9% interests in NetDragon (Fujian) are owned as to approximately 96.1% by Liu Dejian, approximately 2.1% by Liu Luyuan and approximately 0.7% by Zheng Hui.

HISTORY AND ACTIVE BUSINESS PURSUITS

On 14 February 2004, NetDragon (Fujian) changed its legal name from Fuzhou NetDragon Websoft Co., Ltd. (福州網龍計算機網絡信息技術有限公司) to its current name.

NetDragon (BVI)

NetDragon (BVI), one of our wholly-owned subsidiaries, was incorporated on 8 January 2003 in the BVI. Upon its incorporation, it was owned as to approximately 86.7% by Liu Dejian and approximately 13.3% by Liu Luyuan.

On 30 January 2004, NetDragon (BVI) allotted and issued 8,270,117, 5,562,020 and 350,000 common shares to the Founding Shareholders (5,439,237 to Liu Dejian, 1,205,500 to Liu Luyuan and 1,625,380 to Zheng Hui), Liu Ming and Chen Feng at par value, respectively. In addition, NetDragon (BVI) allotted and issued 2,666,666 preferred Shares of US\$0.01 each to the IDG Group for an aggregate consideration of US\$2,000,000.

On 30 March 2004, for restructuring purposes and to provide an incentive to our senior management, NetDragon (BVI) allotted and issued 2,430,550 shares to Zheng Hui and 44,240 shares to Liu Luyuan at par value each, respectively. On the same day, Liu Dejian transferred 6,043,537 shares to DJM Holding Ltd. (which was then owned as to 51% by Zheng Hui and 49% by Liu Dejian) while Liu Ming transferred 4,526,593 shares to DJM Holding Ltd., 700,000 shares to Cristionna Holdings Limited (which was owned as to approximately 99% by Chen Hongzhan and approximately 1% by Liu Ming), 215,427 shares to Zheng Hui and 120,000 shares to Wu Chak Man, respectively. After the allotments, issues and transfers of shares, NetDragon (BVI) was owned as to approximately 93.25% by the Founding Shareholders (approximately 60.91% by DJM Holding Ltd., approximately 24.61% by Zheng Hui and approximately 7.73% by Liu Luyuan), approximately 4.03% by Cristionna Holdings Limited, approximately 2.02% by Chen Feng and approximately 0.69% by Wu Chak Man, respectively, whereas the IDG Group was interested in 100% of the preferred shares in NetDragon (BVI).

On 10 January 2007, an aggregate of 2,200,000 shares in NetDragon (BVI) were allotted and issued at a consideration of US\$4.14 per share to the IDG Group and the Other Investors (other than China Venture Capital Company Limited). On the same day, DJM Holding Ltd. transferred 1,000,000 and 200,000 shares in NetDragon (BVI) to Happy Sunshine Limited and China Venture Capital Company Limited at a consideration of US\$4,140,000 (equivalent to HK\$32,292,000) and US\$828,000 (equivalent to HK\$6,458,400), respectively. The consideration were negotiated and determined between the parties at arm's length with reference to the projected net profit of NetDragon (BVI) for the year ended 31 December 2006. After the allotments, issues and transfers of shares, NetDragon (BVI) was owned as to approximately 76.6% by the Founding Shareholders (approximately 47.9% by DJM Holding Ltd., approximately 21.8% by Zheng Hui and approximately 6.9% by Liu Luyuan), approximately 3.6% by Cristionna Holdings Limited, approximately 1.8% by Chen Feng, approximately 0.6% by Wu Chak Man and the remaining 17.4% by the IDG Group, Happy Sunshine Limited and the Other Investors whereas the IDG Group was also interested in 100% of the preferred shares in NetDragon (BVI).

HISTORY AND ACTIVE BUSINESS PURSUITS

During the two years immediately preceding the date of this prospectus, NetDragon (BVI) has undergone certain changes in its share capital and shareholding structure, details of which are set out in “Statutory and general information - Further information about the Company - Changes in share capital of the Company’s subsidiaries” in Appendix V to this prospectus. After such changes in its share capital and shareholding structure, NetDragon (BVI) became the directly wholly-owned subsidiary of the Company.

TQ Digital

TQ Digital, one of our wholly-owned subsidiaries, was established on 28 February 2003 with limited liability in the PRC with a registered capital of RMB500,000. Upon its establishment, TQ Digital was owned as to 95% by NetDragon (Fujian) and 5% by 福州維爾康保健品有限公司 (translated as Fuzhou Welcome Healthcare Products Co., Ltd) (“**Fuzhou Welcome**”), an Independent Third Party.

On 11 September 2003, NetDragon (BVI) entered into a share transfer agreement with NetDragon (Fujian) and Fuzhou Welcome and acquired the entire equity interest in TQ Digital at a consideration of approximately RMB1,324,000. The consideration is based on the net asset value of TQ Digital as at 30 September 2003. On 17 November 2003, the People’s Government of Fujian Province issued the certificate of approval for establishment of enterprises with foreign investment in the PRC to TQ Digital. Its term of operation is 20 years.

To develop our continuously expanding business further, on 28 March 2004, 31 May 2004 and 2 June 2005, TQ Digital increased its registered capital to RMB10,000,000, RMB35,000,000 and RMB45,000,000, respectively with the contributions of an aggregate of RMB44,500,000 in cash by NetDragon (BVI) into TQ Digital. The increases in registered capital were approved by Foreign Trade and Economic Cooperation Department of Fujian Province (福建省對外貿易經濟合作廳) on 28 April 2004, 23 June 2004 and 20 June 2005, respectively.

NetDragon (USA)

NetDragon (USA), a subsidiary wholly-owned by NetDragon (BVI), was incorporated on 10 July 2003 in the State of California, USA, with an initial capital contribution from NetDragon (BVI) for US\$100,000. Apart from an additional capital contribution of US\$500,000 by NetDragon (BVI), there has been no change in its shareholding structure since its incorporation.

NetDragon (Shanghai)

NetDragon (Shanghai) was established on 20 December 2004 with limited liability in the PRC with a registered capital of RMB1,000,000. Upon its establishment, NetDragon (Shanghai) was owned 99% by NetDragon (Fujian) and 1% by Zheng Hui. There has been no change in the shareholding of NetDragon (Shanghai) since its establishment.

HISTORY AND ACTIVE BUSINESS PURSUITS

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 as our investment holding company. Upon its incorporation, one subscriber Share was transferred to Chen Feng and 349,999 Shares were allotted and issued to Cheng Feng at par.

On 15 December 2004, in order to raise funds, the Company allotted and issued 2,666,666 preferred Shares to the IDG Group at par value each. On the same day, for restructuring purpose, the Company allotted and issued 11,605,557 Shares to DJM Holding Ltd., 1,625,380 Shares to Zheng Hui and 1,298,000 Shares to Richmedia Holdings Limited (which is wholly and beneficially owned by Liu Luyuan). After the allotments and issues of the Shares, the Company was owned as to approximately 78.0% by DJM Holding Ltd., 10.9% by Zheng Hui, 8.7% by Richmedia Holdings Limited and 2.4% by Chen Feng, whereas the IDG Group was interested in 100% of the preferred Shares in the Company.

In June 2007, as a recognition of the contributions of our management and employees, Fitter Property Inc. transferred an aggregate of 4,812,842 Shares to Chen Feng, six newly incorporated companies which are wholly and beneficially owned by our existing employees and a former employee and one newly formed trust company controlled by Zheng Hui for the benefit of our employees. In addition, DJM Holding Ltd. issued and allotted 1,000 shares to Liu Dejian and since then, DJM Holding Ltd. is owned as to approximately 95.4% and 4.6% by Liu Dejian and Zheng Hui, respectively.

Within two years immediately preceding the date of this prospectus, the Company has undergone certain changes in its share capital and shareholding structure, details of which are set out in “Statutory and general information - Further information about the Company - Changes in share capital and shareholding structure of the Company”. After such changes in its share capital and shareholding structure, NetDragon (BVI) became the directly wholly-owned subsidiary of the Company.

NetDragon (HK)

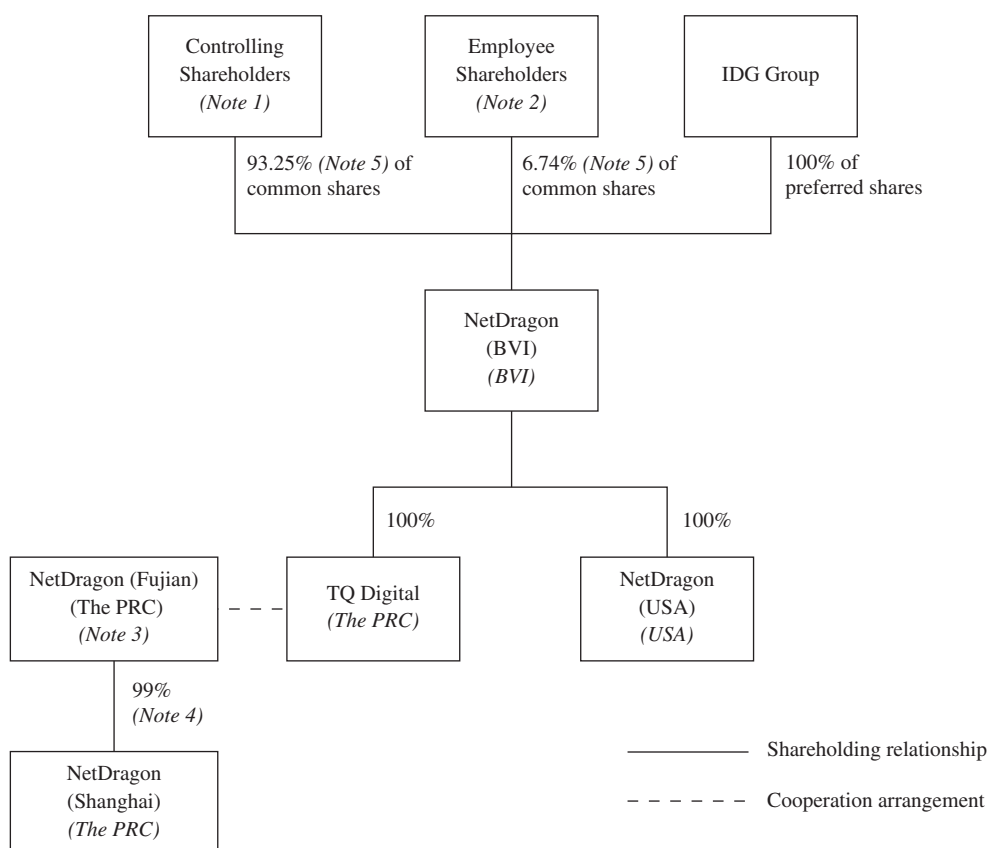
NetDragon (HK), one of our wholly owned subsidiaries, was incorporated on 28 June 2007 in Hong Kong with limited liability. Upon its incorporation, one subscriber share was transferred at par to NetDragon (BVI). There has been no change in the shareholding structure of NetDragon (HK) since its incorporation.

Corporate reorganisation

In preparation for the Listing, various companies comprising the Group have undergone a corporate reorganisation. Upon completion of the corporate reorganisation, the Company became our holding company. Details of the corporate reorganisation are set out in “Statutory and general information - Further information about the Company - Group reorganisation” in Appendix V to this prospectus.

SHAREHOLDING AND CORPORATE STRUCTURE

The following chart shows our shareholding corporate structure prior to 1 January 2007, the effective date of the Structure Contracts:



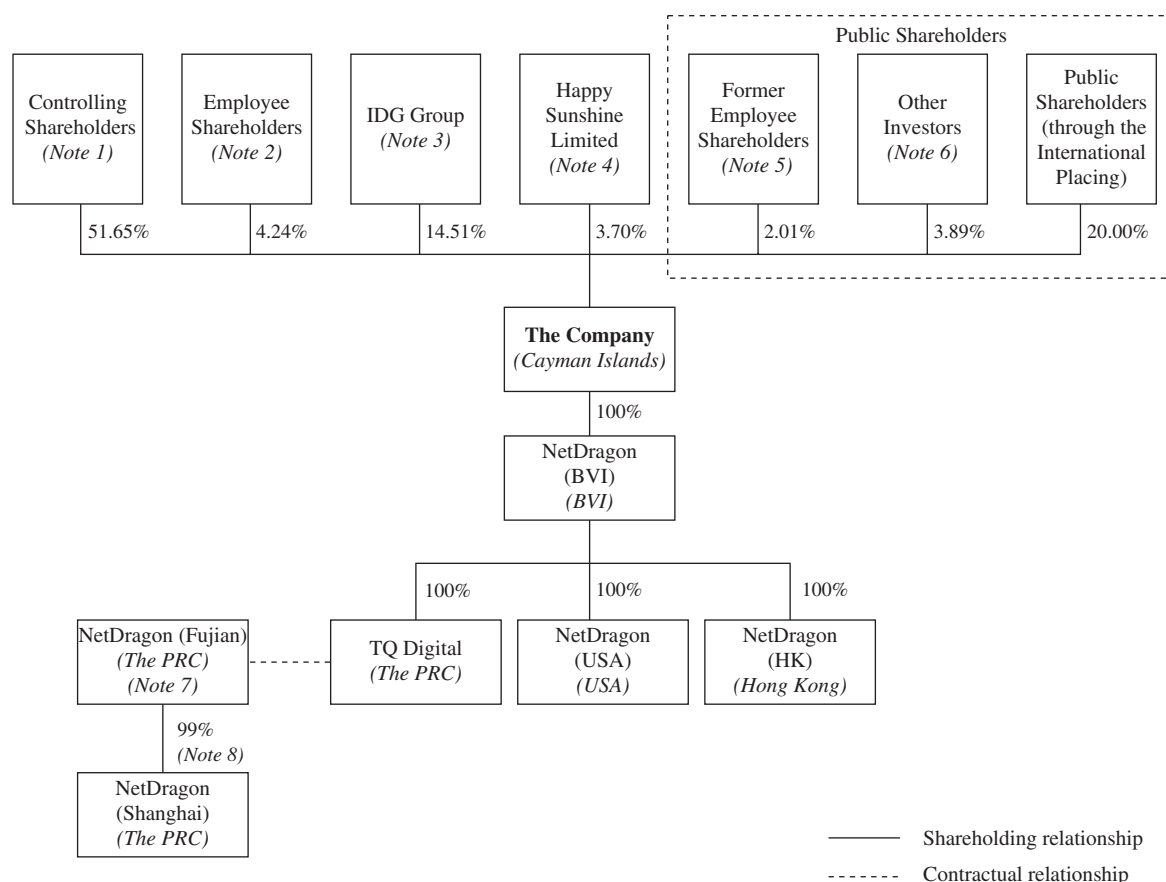
Notes:

1. The approximately 93.25% interest in the common shares of NetDragon (BVI) was owned as to:
 - (a) approximately 60.91% by DJM Holding Ltd., an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and then owned as to approximately 51% by Zheng Hui and 49% by Liu Dejian, both being executive Directors;
 - (b) approximately 24.61% by Zheng Hui, an executive Director;
 - (c) approximately 7.73% by Liu Luyuan, an executive Director.
2. The approximately 6.74% interest in the common shares of NetDragon (BVI) was owned as to:
 - (a) approximately 4.03% by Cristionna Holdings Limited, an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and owned as to approximately 99% by Chen Hongzhan, an executive Director, and approximately 1% by Liu Ming, a director of NetDragon (USA);
 - (b) approximately 2.02% by Chen Feng, one of our employees who subsequently resigned on 30 June 2007;
 - (c) approximately 0.69% by Wu Chak Man, a member of our senior management.

SHAREHOLDING AND CORPORATE STRUCTURE

3. NetDragon (Fujian) was owned as to approximately 96.05%, 2.11% and 0.7% by Liu Dejian, Liu Luyuan and Zheng Hui, respectively, all executive Directors, approximately 0.64% by Chen Minlin, an employee of Fuzhou 851, and approximately 0.5% by Lin Yun, an employee of our Group.
4. The remaining 1% equity interests in NetDragon (Shanghai) were owned by Zheng Hui, an executive Director.
5. Numbers do not add up to 100% due to rounding.

The following chart shows our shareholding corporate structure immediately after completion of the International Placing and the Capitalisation Issue, without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and assuming that the Over-allotment Option is not exercised:



Notes:

1. The approximately 51.65% interest in the Company will be owned as to:
 - (a) approximately 33.96% by DJM Holding Ltd., an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and owned as to approximately 95.4% and 4.6%, respectively, by each of Liu Dejian and Zheng Hui, both being executive Directors. All of DJM Holding Ltd., Liu Dejian and Zheng Hui are regarded as Initial Management Shareholders under the GEM Listing Rules;
 - (b) approximately 6.57% by Fitter Property Inc, an investment holding company incorporated on 13 April 2006 in the BVI with limited liability and owned as to 100% by Zheng Hui, an executive Director. Both Fitter Property Inc. and Zheng Hui are regarded as Initial Management Shareholders under the GEM Listing Rules;

SHAREHOLDING AND CORPORATE STRUCTURE

- (c) approximately 4.88% by Richmedia Holdings Limited, an investment holding company incorporated on 10 May 2004 in the BVI with limited liability and owned as to 100% by Liu Luyuan, an executive Director. Both Richmedia Holdings Limited and Liu Luyuan are regarded as Initial Management Shareholders under the GEM Listing Rules; and
 - (d) approximately 6.24% by Eagle World International Inc., an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and owned as to 100% by Flowson Company Limited, an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and owned as to 100% by Zheng Hui. Zheng Hui owns the voting rights in respect of the shares in Flowson Company Limited. Flowson Company Limited holds its indirect interest in the Shares as trustee for the benefit of the employees of the Group under a discretionary trust. Under the terms of the trust, Zheng Hui has power to direct the exercise of the voting rights in respect of the trust's shares in Eagle World International Inc. As Eagle World International Inc. is interested in approximately 6.24% of the Company, Zheng Hui has power to direct the exercise of the voting powers in respect of the Shares held by Eagle World International Inc. Both Eagle World International Inc. and Flowson Company Limited are regarded as Initial Management Shareholders under the GEM Listing Rules.
2. The approximately 4.24% interest in the Company will be owned as to:
- (a) approximately 2.41% by Cristionna Holdings Limited, an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and owned as to approximately 99% by Chen Hongzhan, an executive Director, and approximately 1% by Liu Ming a director of NetDragon (USA). All of Cristionna Holdings Limited, Chen Hongzhan and Liu Ming are regarded as Initial Management Shareholders under the GEM Listing Rules;
 - (b) approximately 0.58% by Lilywhites Venture Limited, an investment holding company incorporated on 10 May 2007 in the BVI with limited liability and owned as to 100% by Lin Yun, a public relations manager of our Group. As Lin Yun is not a senior management of the Group, both Lilywhites Venture Limited and Lin Yun are not regarded as Initial Management Shareholders under the GEM Listing Rules;
 - (c) approximately 0.35% by Main Shine Company Limited, an investment holding company incorporated on 10 May 2007 in the BVI with limited liability and owned as to 100% by Wang Wei, a game designer of our Group. As Wang Wei is not a senior management of the Group, both Main Shine Company Limited and Wang Wei are not regarded as Initial Management Shareholders under the GEM Listing Rules;
 - (d) approximately 0.35% by Wu Chak Man, a member of our senior management and an Initial Management Shareholder under the GEM Listing Rules;
 - (e) approximately 0.27% by Growing Up Capital Inc., an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and owned as to 100% by Wu Jialiang, a member of our senior management. Both Growing Up Capital Inc. and Wu Jialiang are regarded as Initial Management Shareholders under the GEM Listing Rules;
 - (f) approximately 0.15% by Kellyton International Limited, an investment holding company incorporated on 10 May 2007 in the BVI with limited liability and owned as to 100% by Wang Song, a game designer of our Group. As Wang Song is not a senior management of the Group, both Kellyton International Limited and Wang Song are not regarded as Initial Management Shareholders under the GEM Listing Rules; and
 - (g) approximately 0.13% by Peony Glory Holding Ltd., an investment holding company incorporated on 21 March 2007 in the BVI with limited liability and owned as to 100% by Zhou Ying, an administrative manager of our Group. As Zhou Ying is not a senior management of the Group, both Peony Glory Holding Ltd. and Zhou Ying are not regarded as Initial Management Shareholders under the GEM Listing Rules.

All of the above employee Shareholders will not be regarded as public Shareholders.

SHAREHOLDING AND CORPORATE STRUCTURE

3. The IDG Group has nominated Lin Dongliang, a non-executive Director, to the Board and is regarded as an Initial Management Shareholder under the GEM Listing Rules. Please see the section headed “Information on the investors” for details of the IDG Group. The IDG Group will not be regarded as a public Shareholder.
4. Happy Sunshine Limited has nominated Zhu Xinkun, a non-executive Director, to the Board and is regarded as an Initial Management Shareholder under the GEM Listing Rules. Please see the section headed “Information on the investors” for details of Happy Sunshine Limited. Happy Sunshine Limited will not be regarded as a public Shareholder.
5. The aggregate of approximately 2.01% interest in the Company will be owned as to approximately 1.37% by Chen Feng, our former employee, and approximately 0.64% by Maincorp Worldwide Ltd., an investment holding company incorporated on 21 March 2007 in the BVI with limited liability which is wholly owned by Lin Ye, our former employee. Chen Feng, Lin Ye and Maincorp Worldwide Ltd. will be regarded as public Shareholders.
6. The aggregate of approximately 3.89% are owned as to approximately 2.04% by SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, approximately 0.93% by Giant East Investments Ltd., approximately 0.74% by China Venture Capital Company Limited, approximately 0.09% by Aura Investment Holdings Limited and approximately 0.09% by SACE Investments Limited. Details of the Other Investors are set out in the section headed “Information on the investors”. The Other Investors will be regarded as public Shareholders.
7. NetDragon (Fujian) is owned as to approximately 96.05% by Liu Dejian, an executive Director, approximately 2.11% by Liu Luyuan, an executive Director, approximately 0.70% by Zheng Hui, an executive Director, approximately 0.64% by Chen Minlin, an employee of Fuzhou 851, and approximately 0.50% by Lin Yun, an employee of our Group.
8. The remaining 1% equity interests in NetDragon (Shanghai) are owned by Zheng Hui, an executive Director.

INFORMATION ON THE INVESTORS

Considering that our online game business is fast growing with potential investment value, we have attracted a number of investors to invest in us since 2004.

On 30 January 2004, NetDragon (BVI) allotted and issued 2,666,666 preferred shares of US\$0.01 each to IDG Technology Venture Investments, L.P., being our investor, for a consideration of US\$2,000,000. The above consideration was determined with reference to the projected net profit of NetDragon (BVI) for the year ended 31 December 2003.

On 10 January 2007, an aggregate of 2,200,000 shares of US\$0.01 each in NetDragon (BVI) were allotted and issued at a consideration of US\$4.14 per share to the IDG Group and the Other Investors (other than China Venture Capital Company Limited). On the same day, DJM Holding Ltd. transferred 1,000,000 and 200,000 common shares of US\$0.01 each, respectively, in NetDragon (BVI) to Happy Sunshine Limited and China Venture Capital Company Limited at a consideration of US\$4,140,000 (equivalent to approximately HK\$32,292,000) and US\$828,000 (equivalent to approximately HK\$6,458,400), respectively. The consideration for the above allotments and transfers of shares to the IDG Group, Happy Sunshine Limited and Other Investors was determined with reference to the projected net profit of NetDragon (BVI) for the year ended 31 December 2006.

SHAREHOLDING AND CORPORATE STRUCTURE

The following table summarises the details of the investments made by the IDG Group, Happy Sunshine Limited and each of the Other Investors:

Name	Date of first investment in the Group	Approximate percentage of shareholding immediately after completion of the	Approximate total cost of investment <i>HK\$</i>	Approximate cost of	Discount to the lowest Placing Price <i>(%)</i>	Discount to the highest Placing Price <i>(%)</i>
		Placing and the Capitalisation Issue <i>(%)</i>		investment per 1,000,000 Shares <i>HK\$</i>		
IDG Group	30 January 2004	14.51	56,270,500	718,347	93.57	94.55
Happy Sunshine Limited	10 January 2007	3.70	32,370,000	1,618,500	85.52	87.72
SEQUEDGE The First Chinese Equities Fund on Prospective for Listing	10 January 2007	2.04	17,803,500	1,618,500	85.52	87.72
Giant East Investments Limited	10 January 2007	0.93	8,092,500	1,618,500	85.52	87.72
China Venture Capital Company Limited	10 January 2007	0.74	6,474,000	1,618,500	85.52	87.72
SACE Investments Limited	10 January 2007	0.09	809,250	1,618,500	85.52	87.72
Aura Investment Holdings Limited	10 January 2007	0.09	809,250	1,618,500	85.52	87.72

The considerations for each of the allotments and/or transfers of shares in the Group to the IDG Group, Happy Sunshine Limited and the Other Investors as mentioned above were arrived at after arm's length negotiations between the relevant parties on normal commercial terms and all such considerations had been fully settled on or before 31 March 2007.

In order to govern the rights and obligations of the IDG Technology Venture Investments, L.P. as a holder in the preferred shares of NetDragon (BVI) upon its investment, on 16 November 2003, NetDragon (BVI) and IDG Technology Venture Investments, L.P. entered into an investor's rights agreement, which had completed on 30 January 2004, while NetDragon (BVI), IDG Technology Venture Investments, L.P., Liu Dejian, Liu Luyuan, Chen Feng, Liu Ming and Zheng Hui entered into a right of first refusal and co-sale agreement. In addition, the then memorandum and articles of association of both the Company and NetDragon (BVI) contained provisions governing the rights of

SHAREHOLDING AND CORPORATE STRUCTURE

IDG Technology Venture Investments, L.P. as holder of preferred shares in each of the Company and NetDragon (BVI). The material rights and obligations of IDG Technology Venture Investments, L.P. under the abovementioned arrangements of the preferred shares are briefly summarised as follows:

Voting rights	Right to vote together with holders of common shares as one class and to be entitled to such number of votes as equals the number of common shares into which the preferred shares being held by it are convertible at the relevant time
Right to dividends	Right to have first priority in the distribution of profits
Rights upon liquidation	Right to have first priority in the distribution of surplus assets upon liquidation, winding up or dissolution
Pre-emptive rights	Right to purchase up to a pro-rata share of any new shares proposed to be issued by the Company or NetDragon (BVI) and right of first refusal to elect to purchase a pro-rata share of any shares proposed to be sold by any shareholder of the Company or NetDragon (BVI)
Right of co-sale	In the event that the right of first refusal has not been exercised in a proposed sale of shares by a shareholder of the Company or NetDragon (BVI), right to participate in such proposed sale of shares up to a number equal to a fraction of the number of sale shares under such proposed sale
Information rights	Right to receive consolidated financial statements, budget and business plan of NetDragon (BVI) on a regular basis
Inspection rights and management meetings	Upon reasonable request, right to visit and inspect the properties and examine the books and accounts of the Group (other than information which the Group considers to be confidential) and to discuss about the affairs, finances and accounts of the Group with its directors, officers and professional advisers

In addition, each of IDG Technology Venture Investments, L.P. and Happy Sunshine Limited is entitled to nominate one Director to the Board.

Save as mentioned above or as otherwise disclosed in this prospectus, none of the other members of the IDG Group, Happy Sunshine Limited, or any of the Other Investors had entered into any agreement or understanding with any member of the Group governing its rights as shareholder of NetDragon (BVI) or the Company. All shareholder's rights which the IDG Group is currently entitled to, including but not limited to those mentioned in the preceding paragraphs, was terminated upon conversion of the preferred Shares and the adoption of the Articles on 15 October 2007. The Articles were adopted in compliance with the GEM Listing Rules in place of the existing memorandum and articles of association of the Company which contain provisions governing the rights of holders of preferred Shares. As the securities of NetDragon (BVI) are not listed on the Stock Exchange and

SHAREHOLDING AND CORPORATE STRUCTURE

NetDragon (BVI) is wholly owned by the Company, the provisions granting special rights to preferred shareholders under the existing memorandum and articles of association of NetDragon (BVI) were not removed due to their inapplicability. The Other Investors did not have any special rights for being shareholders in the Group.

According to the then memorandum and articles of association of the Company, the preferred Shares held by the IDG Group could be converted into common Shares at any time at the option of the IDG Group, or otherwise automatically converted upon completion of the International Placing. In preparation for the International Placing, all preferred Shares held by the IDG Group were fully converted into common Shares at the ratio of 1:1, which rank pari passu in all respects with the Shares held by the other Shareholders, details of which are set out in Appendix V to this prospectus. Immediately before completion of the International Placing and the Capitalisation Issue, the IDG Group, Happy Sunshine Limited and the Other Investors will be interested in an aggregate of 27.31% of the equity interests in the Company. Upon the Listing, the rights of IDG Group, Happy Sunshine Limited and the Other Investors in the Company will rank pari passu in all respects with other Shareholders of the Company.

The IDG Group, Happy Sunshine Limited and the Other Investors are financial investors and, save for their respective interests in the Shares as set out in this section, all of them are Independent Third Parties.

The IDG Group

The IDG Group is comprised of five limited partnerships, the details of which are set out as follows:

- (i) IDG Technology Venture Investments, L.P. is a limited partnership formed on 27 June 2000 under the laws of the State of Delaware, USA. Its sole general partner is IDG Technology Venture Investments, LLC, a limited liability company formed on 26 June 2000 under the laws of the State of Delaware, USA.
- (ii) IDG-Accel China Growth Fund L.P. is an exempted limited partnership registered on 19 August 2005 in the Cayman Islands. The sole general partner of IDG-Accel China Growth Fund L.P. is IDG-Accel China Growth Fund Associates L.P., an exempted limited partnership registered on 19 August 2005 in the Cayman Islands, which is in turn controlled by its sole general partner, IDG-Accel China Growth Fund G.P. Associates Ltd., an exempted company incorporated on 11 August 2005 in the Cayman Islands.
- (iii) IDG Technology Venture Investments III, L.P. is a limited partnership formed on 2 March 2005 under the laws of the State of Delaware, USA. Its sole general partner is IDG Technology Venture Investments III, LLC, a limited liability company formed on 2 March 2005 under the laws of the State of Delaware, USA.

SHAREHOLDING AND CORPORATE STRUCTURE

- (iv) IDG-Accel China Growth Fund-A L.P. is an exempted limited partnership registered on 5 October 2005 in the Cayman Islands. The sole general partner of IDG-Accel China Growth Fund-A L.P. is IDG-Accel China Growth Fund Associates L.P., an exempted limited partnership registered on 19 August 2005 in the Cayman Islands, which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund G.P. Associates Ltd., an exempted company incorporated on 11 August 2005 in the Cayman Islands.
- (v) IDG-Accel China Investors L.P. is an exempted limited partnership registered on 23 December 2005 in the Cayman Islands. Its sole general partner is IDG-Accel China Investors Associates Ltd., an exempted limited company incorporated on 21 December 2005 in the Cayman Islands.

Each member of the IDG Group is managed by its general partner, who has the full and exclusive power and authority to manage and control the fund and its business. Each member of the IDG Group also consists of limited partner or limited partners who merely play the passive function of injecting capital into the fund and have no voting or management rights.

The members of the IDG Group are venture capital funds making investments in start-up to growth stage companies with PRC-related businesses on behalf of their respective limited partners.

Happy Sunshine Limited

Happy Sunshine Limited is an investment holding company incorporated on 15 April 2005 in the BVI with limited liability and is owned as to 100% by Chee Swee Fu. Zhu Xinkun, being one of our non-executive Directors, has been appointed by Happy Sunshine Limited to our board of Directors. Happy Sunshine Limited is primarily engaged in investment holding in PRC-related private equity.

SEQUEDGE The First Chinese Equities Fund on Prospective for Listing

SEQUEDGE The First Chinese Equities Fund on Prospective for Listing is a partnership organised on 17 August 2006 under the Civil Code of Japan. Its sole general partner is Silver Arrow Capital Inc., a limited liability company formed on 26 November 2002 under the Commercial Code of Japan. SEQUEDGE The First Chinese Equities Fund on Prospective for Listing is a venture capital fund and has been setting up for the main purpose of getting capital gains, through initial public offers, stock sales and stock swaps, by making investments in non-listed companies that carry on business namely care welfare, temporary employees' agency, consumer finance and information technology related business in the PRC, Hong Kong and Macau, or in those companies that are making investments to the aforesaid non-listed companies. The beneficial owners of SEQUEDGE The First Chinese Equities Fund on Prospective for Listing are Independent Third Parties.

SEQUEDGE The First Chinese Equities Fund on Prospective for Listing is managed by its general partner, who has the full and exclusive power and authority to manage and control the fund and its business. It also consists of one limited partner who merely plays the passive function of injecting capital into the fund and has no voting or management rights.

SHAREHOLDING AND CORPORATE STRUCTURE

Giant East Investments Limited

Giant East Investments Limited is an investment holding company incorporated on 16 November 2006 in the BVI with limited liability. It is owned as to 100% by Greateast Group Limited, an investment holding company incorporated on 25 May 2005 in the BVI with limited liability which is owned as to 100% by Wong Chi Yu, an Independent Third Party. Giant East Investments Limited is primarily engaged in property and private equity investment.

SACE Investments Limited

SACE Investments Limited is an investment holding company incorporated on 26 July 2005 in the BVI with limited liability and is owned as to 100% by Tsang Mo Ching. SACE Investments Limited is primarily engaged in private equity investment.

Aura Investment Holdings Limited

Aura Investment Holdings Limited is an investment holding company incorporated on 3 February 2004 in the BVI with limited liability and is owned as to 100% by Wang Jingbo. Aura Investment Holdings Limited is primarily engaged in professional investment business with a focus on companies carrying on internet, software and information technology business in the PRC.

China Venture Capital Company Limited

China Venture Capital Company Limited is an investment holding company incorporated on 7 October 2002 in the BVI with limited liability and is owned as to 100% by Chau Shek Cheong. China Venture Capital Company Limited is an independent venture capital consultancy firm focused on high growth technology and industries based businesses with a market presence in Southern China, Eastern China and Hong Kong.

The Shares held by the IDG Group and Happy Sunshine Limited will not be counted as listed securities held by the public upon the Listing. The Shares held by SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, Giant East Investments Limited, SACE Investments Limited, Aura Investment Holdings Limited and China Venture Capital Company Limited will be counted as listed securities held by the public upon the Listing.

STRUCTURE CONTRACTS

The existing PRC laws and regulations restrict foreign investment in businesses providing Internet content and information services in the PRC. Our wholly-owned subsidiary, TQ Digital, being a foreign owned enterprise, does not have the requisite licenses to provide Internet content and information services in the PRC.

Prior to 1 January 2007, we operated pursuant to a cooperation arrangement between TQ Digital and NetDragon (Fujian). Under such cooperation arrangement, TQ Digital was responsible for game software development and provision of the relevant technical services while NetDragon (Fujian) was responsible for the overall operation of the relevant games. In addition, each of TQ Digital and NetDragon (Fujian) was entitled to use the trademarks, copyrights and other intellectual property rights of the other party. Revenue generated from the operation of the games was collected by TQ Digital on behalf of NetDragon (Fujian). Pursuant to the cooperation arrangement, TQ Digital would then return 30% of the total revenue received to NetDragon (Fujian), representing the revenue attributable to the operation of the games, and retain the remaining 70% of the total revenue, representing the games license fee.

Our PRC legal adviser, Dacheng Law Offices, has confirmed that, as TQ Digital has the technical capability to develop game software and NetDragon (Fujian), which holds the ICP license, may operate the relevant games according to the Telecommunications Regulations (電信條例), the Administrative Measures for Telecommunications Business Operating Licenses (電信業務經營許可證管理辦法) and other applicable laws and regulations, details of which are set out in “Regulations relating to the industry - Regulation of value-added telecommunication business” of this prospectus, both TQ Digital and NetDragon (Fujian) had the respective capacity to enter into the cooperation arrangement prior to 1 January 2007. Such cooperation arrangement manifests the intents of TQ Digital and NetDragon (Fujian). Further, neither any laws published by the National People’s Congress of the PRC or its Standing Committee, nor any administrative regulations issued by the State Council of the PRC, nor any ministerial rules issued by all ministries and commissions under the State Council of the PRC impose any restrictive or prohibitory provision against such cooperation arrangement as a whole. Therefore, the cooperation arrangement prior to 1 January 2007 did not violate any law or public interest. Pursuant to the MII Notice, details of which are set out in “Regulations relating to the industry - Regulation of value-added telecommunication business” of this prospectus, an ICP license holder is required to have its own domain names, registered trademarks and operating facilities. NetDragon (Fujian) had its own domain names, registered trademarks and operating facilities at all material times while the cooperation arrangement was in place prior to 1 January 2007.

Based on the above, our PRC legal adviser, Dacheng Law Offices, confirmed that NetDragon (Fujian) has been in compliance with the MII Notice and that the cooperation arrangement prior to 1 January 2007 was legal, effective and was in compliance with relevant laws and regulations in the PRC.

In preparation for the Listing and with a view to offer further protection to the interests of the Company and the Shareholders as a whole by means of contractual arrangements, TQ Digital and NetDragon (Fujian) and its equity holders entered into the Structure Contracts, which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007. Under the Structure Contracts, NetDragon (Fujian) is responsible to collect the revenue generated

STRUCTURE CONTRACTS

from the operation of the games. The bank accounts of NetDragon (Fujian) are operated through its company seal and the personal seal of Liu Dejian, an executive Director. The company seal is kept by Zheng Hui, an executive Director. The Management Committee currently determines the service fees to NetDragon (Fujian) quarterly and NetDragon (Fujian) is billed monthly. NetDragon (Fujian) is required to settle the service fees within 10 days of the billing date. Through the Structure Contracts, we are able to recognise and receive the economic benefits of the business and operations of NetDragon (Fujian). The Structure Contracts enable TQ Digital to control over and to acquire the equity interests in and/or assets of NetDragon (Fujian) when permitted by the relevant PRC laws and regulations. The following sets out a summary of the arrangements under the Structure Contracts:

- TQ Digital will receive service fees from NetDragon (Fujian), the total amount of which shall be determined by the Management Committee with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements under the guiding principles that (i) NetDragon (Fujian) shall pay the maximum amount of fees to TQ Digital without incurring any loss for each financial year; (ii) the net asset value of NetDragon (Fujian) shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000. The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of NetDragon (Fujian) will be enjoyed by TQ Digital;
- TQ Digital has the right to acquire any or all the shares and/or assets of NetDragon (Fujian) when permitted by the relevant PRC laws and regulations with a nominal amount of consideration or the lowest price permitted by the relevant laws and regulations;
- the equity holders of NetDragon (Fujian) has granted to TQ Digital a pledge over the entire equity interests in the registered capital of NetDragon (Fujian), for the purpose of securing the performance of the contractual obligations by NetDragon (Fujian) and its equity holders under the Structure Contracts; and
- to ensure that TQ Digital retains control over NetDragon (Fujian), under the Structure Contracts, the equity interests of NetDragon (Fujian) may not be transferred or otherwise disposed of by any of the equity holders of NetDragon (Fujian) without the consent of TQ Digital, furthermore, as a succession arrangement, the obligations of the equity holders of NetDragon (Fujian) under the Structure Contracts (including the irrevocable undertaking to authorise TQ Digital or its nominee to exercise their voting rights in NetDragon (Fujian)) will bind all of their respective successors.

The Structure Contracts, taken as a whole, permit the financial results of NetDragon (Fujian) to be consolidated with the Company as if it were a subsidiary of the Company and the economic benefit of its businesses to flow to the Company and TQ Digital. The Structure Contracts could also prevent any possible leakages of assets and values to NetDragon (Fujian)'s equity holders.

As a result of the Structure Contracts, TQ Digital is able to control NetDragon (Fujian) and NetDragon (Shanghai) and accordingly, they are regarded as our subsidiaries and their results are to be consolidated into our financial statements. Since NetDragon (Fujian) and NetDragon (Shanghai) were under the common control of the same group of persons before and after our formation, the

STRUCTURE CONTRACTS

results and financial positions of NetDragon (Fujian) and NetDragon (Shanghai) are combined into our financial statements using merger accounting as if NetDragon (Fujian) and NetDragon (Shanghai) were part of us since their respective date of establishment or since the date when they first came under the common control. As confirmed by our reporting accountants, these are in compliance with the relevant accounting standards.

In addition, TQ Digital and NetDragon (Fujian) have the right to all our intellectual properties. In order to secure that TQ Digital is able to process the right to the intellectual properties held by NetDragon (Fujian), TQ Digital and all the equity holders of NetDragon (Fujian) entered into the Exclusive Acquisition Rights Agreement, details of which are set out in “Structure Contracts - Agreement for the Exclusive Right to Acquire Equity Interest and Assets” of this prospectus. Pursuant to the Exclusive Acquisition Rights Agreement, TQ Digital, among others, has the right to acquire part or all of the assets of NetDragon (Fujian), including but not limited to its intellectual properties, from the equity holders of NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations.

Management Committee

The Structure Contracts establish the Management Committee to oversee the business and operations of NetDragon (Fujian). Through its control over NetDragon (Fujian), the Management Committee is also able to oversee the business and operations of NetDragon (Shanghai), being the subsidiary of NetDragon (Fujian). The Management Committee comprises four members, of which each of TQ Digital and NetDragon (Fujian) is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the Management Committee may only be removed by the party who originally appointed such member. As a general requirement, the members appointed by NetDragon (Fujian) must also be the equity holders of NetDragon (Fujian) as well as directors of TQ Digital. In the case where the number of members who concurrently act as a director of both TQ Digital and NetDragon (Fujian) is less than two, TQ Digital is entitled to appoint an additional member of the Management Committee. As such, under the Structure Contracts, the Management Committee is allowed to have a maximum of five members.

Currently, the Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by NetDragon (Fujian), and Zheng Hui and Chen Hongzhan who were appointed by TQ Digital. The directors of NetDragon (Fujian) comprise Liu Dejian, Liu Luyuan, Zheng Hui, being executive Directors, Wu Jialiang, being a member of our senior management, and Lin Lizhi, being our general manager. Zheng Hui, an executive Director, is the only director of NetDragon (Shanghai). Further details of the above members are set out in the section headed “Directors, Senior Management and Staff” in this prospectus.

Save for the respective directors’ service fees receivable from TQ Digital and NetDragon (Fujian) (as applicable), the members of the Management Committee do not receive any remuneration for their involvement in the affairs of the Management Committee.

STRUCTURE CONTRACTS

Meetings of the Management Committee

Meetings of the Management Committee are held regularly on a monthly basis. The quorum for a meeting of the Management Committee is three (including at least one member appointed by each of TQ Digital and NetDragon (Fujian)).

The Management Committee adopts decisions by simple majority resolution of its members. If there is an equal number of votes for and against a decision, TQ Digital and NetDragon (Fujian) shall each appoint an independent third person to decide the matter, failing which the matter shall be decided by the common ultimate individual equity holders of TQ Digital and NetDragon (Fujian), whose decision shall be final and binding on members of the Management Committee.

The Management Committee will hold meeting quarterly to determine the service fees payable by NetDragon (Fujian) to TQ Digital. To facilitate such determination, accounts of NetDragon (Fujian) as at the end of the relevant period have to be submitted to the Management Committee for review and discussion. As a result, the Management Committee will take the figures into consideration to determine the service fees payable by NetDragon (Fujian) to TQ Digital. The service fees are paid by NetDragon (Fujian) to TQ Digital from time to time in accordance with the decisions of the Management Committee. The Management Committee will also review the net asset value of NetDragon (Fujian) at least every three months and make necessary adjustment to the net asset value to a level not exceeding RMB15 million.

The Management Committee will also consider the future benefits and effects while determining the amount to be charged by TQ Digital to NetDragon (Fujian). According to the business model, the revenue received by NetDragon (Fujian) is duly generated from the online games licensed from TQ Digital. The Management Committee is eligible to determine and set the license fees at the highest possible amount.

Through its control over the Management Committee by the above arrangement, TQ Digital is able to monitor, supervise and effectively control NetDragon (Fujian)'s business and operations so as to ensure and facilitate the implementation of the Structure Contracts, particularly the abovementioned guiding principles laid down thereunder. Amongst its various functions, the Management Committee is responsible for determining and adjusting the amount and pricing basis of the various license and service fees payable by NetDragon (Fujian) to TQ Digital with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements.

Any amendments to the Structure Contracts may be made subject to resolution of members of the Management Committee and approval of our Shareholders in general meeting. No amendments to the Structure Contracts can be made unless it is required under the GEM Listing Rules or is consented by us in writing in advance.

STRUCTURE CONTRACTS

Our PRC legal adviser, Dacheng Law Offices, after taking all possible actions or steps to enable it to reach its legal conclusions, is of the opinion that:

- each of our PRC entities has been duly incorporated and is validly existing under the relevant PRC laws and regulations;
- the cooperation arrangements between TQ Digital and NetDragon (Fujian) prior to 1 January 2007 was legal, effective and in compliance with the relevant laws and regulations in the PRC;
- each of the Structure Contracts has been duly authorised, executed and delivered by the parties to the Structure Contracts and such contracts are legal, valid, admissible as evidence and binding under the relevant PRC laws and regulations, enforceable against the parties to Structure Contracts in accordance with the terms and conditions in the Structure Contracts and under the relevant PRC laws and regulations;
- the execution, delivery and performance of the Structure Contracts do not violate or result in a breach of or default under any PRC laws, regulations, rules or government policies or their respective articles of association or material contracts which any of them is a party;
- none of the terms and conditions in each of the Structure Contracts (taken individually or together as a whole) nor our legal structure described in this section contravenes any applicable laws, regulations, rules or government policies of the PRC;
- NetDragon (Fujian) complies with all the provisions in the MII Notice, including but not limited to the requirements on NetDragon (Fujian) relating to its ownership of domain names, trademarks and operating facilities;
- the Structure Contracts will not be construed as some form of transfer of the ICP license, leasing or selling any telecommunications business operating license from NetDragon (Fujian) to TQ Digital or provision of resources or sites or facilities from NetDragon (Fujian) to TQ Digital, thereby contravening the MII Notice;
- the MII Notice does not have any impacts on the operation, legality and validity of any of the Structure Contracts; and
- all necessary filings, consents, approvals, permits, authorisations, certificates and licenses of all PRC national, provincial or local government authorities, or any subdivision or department of any such authority, that are required in relation to the execution, delivery, effectiveness and enforceability of each of the Structure Contracts have been made or obtained and remain in full force and effect.

To reach its legal conclusions, our PRC legal adviser, Dacheng Law Offices, has conducted due diligence works on our interests in the PRC, studied relevant PRC legal issues, and consulted the market management department under the information management bureau of MII which is responsible for supervising and administrating the telecommunication business market in the

STRUCTURE CONTRACTS

PRC. Our PRC legal adviser, Dacheng Law Offices, has further confirmed that there has been no objection from PRC regulatory authority against the contractual arrangements as described in this prospectus. Based on the above, the Joint Sponsors are of the view that there is no reasonable doubt as to the conclusion that our PRC legal adviser, Dacheng Law Offices, has taken appropriate actions or steps to enable it to reach its legal conclusion regarding the Structure Contracts.

Set out below is a brief summary of the terms of the Structure Contracts:

(1) Cooperation Framework Agreement

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into a cooperation framework agreement (the “Cooperation Framework Agreement”) pursuant to which TQ Digital and NetDragon (Fujian) agreed to cooperate in the provision of services relating to the online game development for and the operation of the online game business of NetDragon (Fujian). The Cooperation Framework Agreement and the terms of reference of the Management Committee laid down the principles that the Management Committee shall have right to determine the amount of license and service fees payable by NetDragon (Fujian) with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) NetDragon (Fujian) shall pay the maximum amount of fees to TQ Digital without incurring any loss for each financial year; and (ii) the net asset value of NetDragon (Fujian) shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000. This principle will ensure that all of the net profit after tax of NetDragon (Fujian) in each financial year shall be paid to TQ Digital as service or license fees, and will give flexibility to the Management Committee to implement the Structure Contracts and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

The Structure Contracts empower the Management Committee to monitor the expenses of NetDragon (Fujian) which are subject to annual review by the independent non-executive Directors. The Structure Contracts also impose restrictions on certain activities which can only be carried on by NetDragon (Fujian) subject to approval of the Management Committee or otherwise carried on in accordance with the instructions or business plans adopted by the Management Committee from time to time, which include, amongst others, entering into agreements with or making payments or advances to any third parties outside the ordinary course of business; disposal or acquisition of any assets or rights; creating security interests over its assets or intellectual property rights in favour of any third parties; and entering into any connected transactions save for transactions with us.

Pursuant to the Cooperation Framework Agreement and the terms of reference of the Management Committee, the Management Committee was set up to, amongst other things:

- (a) assist NetDragon (Fujian) in arranging the operation of its online game business and oversee the day-to-day operations of its online games business in the PRC and formulate and adjust the scope of authority granted to NetDragon (Fujian) in relation to its operations;

STRUCTURE CONTRACTS

- (b) monitor, supervise and give advice in relation to the provision by TQ Digital to NetDragon (Fujian) of (i) licenses for the use of software developed by TQ Digital; (ii) software development consultancy services; and (iii) technical support services;
- (c) determine and adjust the amount of license and service fees payable by NetDragon (Fujian) to TQ Digital with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements, under the guiding principle that NetDragon (Fujian) shall pay the maximum amount of fees to TQ Digital without incurring any loss for each financial year;
- (d) supervise the expenditure of NetDragon (Fujian) to maintain it at a level sufficient for its basic day-to-day operations;
- (e) monitor the net asset value of NetDragon (Fujian), to be reviewed by NetDragon (Fujian) every three months, such that it shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000;
- (f) coordinate the allocation of manpower and supervise the appointment or replacement of senior management members of NetDragon (Fujian);
- (g) supervise the recruitment and training of staff for online games development and online games business operations;
- (h) supervise the implementation of the Structure Contracts;
- (i) make recommendations and decisions in respect of material issues which arise in the cooperation between TQ Digital and NetDragon (Fujian);
- (j) supervise and direct the financial, accounting and the settlement of service and license fees payable under the Structure Contracts;
- (k) assist in the formulation of the business plan of NetDragon (Fujian) and providing guidance and recommendations to NetDragon (Fujian) in respect of its strategic development; and
- (l) monitor the activities of NetDragon (Fujian) such that it would not, amongst other things, (i) enter into agreements with or making payments or advances to any third parties outside the ordinary course of business; (ii) dispose of or acquire any assets or rights; (iii) create security interests over its assets or intellectual property rights in favour of any third party; (iv) agree or allow any third party to infringe in any way the intellectual property rights owned by TQ Digital; (v) give any form of guarantees in favour of any third party; (vi) enter into any connected transactions save for transactions with us; or (vii) enter into any cooperation arrangements with any third party which are similar to those provided under the Structure Contracts.

STRUCTURE CONTRACTS

Attached to the Cooperation Framework Agreement are forms of 1) cooperation and license agreements in respect of online games; 2) online games software development service agreements; and 3) technical support service agreement, to be entered into by TQ Digital and NetDragon (Fujian), for the purpose of license, development of online games and provision of technical services from TQ Digital to NetDragon (Fujian) and determining the service fees, license fees and commission to be paid from NetDragon (Fujian) to TQ Digital.

The term of the Cooperation Framework Agreement is 10 years commenced from 1 January 2007 and ending on 31 December 2016, and automatically renewable for successive 10-year terms provided that TQ Digital does not issue any notice of termination one month before the termination date.

(2) Agreement for Cooperation and Licence in respect of Online Games

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into eight agreements for cooperation and license in respect of online games (the “Cooperation and License Agreements”) for each of Eudemons Online, Conquer Online, Zero Online, Monster & Me, Era of Faith, Happiness Q, Piao Miao Online and Heroes of Might and Magic Online, respectively, pursuant to which TQ Digital will license the said online game softwares to NetDragon (Fujian) for use in the PRC in consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)’s annual gross revenues (which may be adjusted by the Management Committee from time to time pursuant to the Cooperation Framework Agreement).

The scope of activities licensed by TQ Digital to NetDragon (Fujian) under each of Cooperation and License Agreements includes the sales and maintenance of online games developed by TQ Digital, allocation of servers, marketing and distribution of pre-paid cards, and provision of maintenance and technical support services to customers in the PRC. The geographical restriction imposed under the Cooperation and License Agreements is aimed at restricting the activities actively carried on by NetDragon (Fujian), rather than the geographical location of the players accessing the online games operated by NetDragon (Fujian) through the Internet.

Each of the Cooperation and License Agreements is for a term of ten years commenced from 1 January 2007 and ending on 31 December 2016, and automatically renewable for successive ten year terms provided that TQ Digital does not issue any notice of termination one month before the termination date.

(3) Online Game Software Development Service Agreement

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into an online game software development service agreement (the “Software Development Agreement”) pursuant to which TQ Digital will provide online software development service to NetDragon (Fujian) in consideration of a service fee, the amount of which to be determined by the Management Committee.

STRUCTURE CONTRACTS

The Software Development Agreement is for a term of 10 years commenced from 1 January 2007 and ending on 31 December 2016, and automatically renewable for successive 10-year terms provided that TQ Digital does not issue any notice of termination one month before the termination date.

(4) Technical Support Service Agreement

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into a technical support service agreement (the “Technical Support Agreement”) pursuant to which TQ Digital would provide technical support services to NetDragon (Fujian) in consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)’s annual gross revenues (which may be adjusted by the Management Committee from time to time pursuant to the Cooperation Framework Agreement).

The Technical Support Agreement is for a term of 10 years commenced from 1 January 2007 and ending on 31 December 2016, and automatically renewable for successive 10-year terms provided that TQ Digital does not issue any notice of termination one month before the termination date.

(5) Equity Interest Pledge Agreement

On 28 September 2007, TQ Digital, NetDragon (Fujian) and all equity holders of NetDragon (Fujian) entered into an equity interest pledge agreement (the “Pledge Agreement”), pursuant to which all such equity holders granted to TQ Digital a continuing first priority security interests over their respective equity interests in the registered capital of NetDragon (Fujian) (the “Pledged Securities”), representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by NetDragon (Fujian)’s equity holders under the Structure Contracts.

Under the Pledge Agreement, TQ Digital is entitled to exercise its right to purchase the Pledged Securities at an agreed price or sell the Pledged Securities through an auction or private sale or dispose of the Pledged Securities in any other manner permitted by applicable laws and regulations, on the occurrence of any of the following:

- any of the equity holders of NetDragon (Fujian) is in breach of any of his or her obligations under the Pledge Agreement, the Exclusive Acquisition Rights Agreement and the Proxy Agreement;
- NetDragon (Fujian) is in breach of any of its material obligation under the Structure Contracts;
- the representations, undertakings given by NetDragon (Fujian) or its equity holders become untrue or misleading in material aspect; and
- any term of the Structure Contracts becomes unenforceable as a result of change in the relevant law and regulations of the PRC or by any other reasons.

STRUCTURE CONTRACTS

The Pledge Agreement is for a term commenced from 28 September 2007 and ending on the date of discharge of all obligations under the Pledge Agreement or all secured obligations, whichever is the earlier.

In March 2007, the Real Rights Law of the PRC 《中華人民共和國物權法》 promulgated the requirement that pledge agreements which are entered into on or after 1 October 2007 would only become effective upon registration at the relevant PRC authority. As confirmed by our PRC legal adviser, Dacheng Law Offices, the Pledge Agreement was entered into on 28 September 2007 while the registration requirement under the Real Rights Law of the PRC 《中華人民共和國物權法》 only requires registration of pledge agreements which are entered into on or after 1 October 2007. Accordingly, the effectiveness of the Pledge Agreement does not require registration at the relevant PRC authority and the registration requirement under 《中華人民共和國物權法》 does not have any retrospective impact on the Pledge Agreement.

(6) Agreement for the Exclusive Right to Acquire Equity Interest and Assets

On 15 October 2007, TQ Digital, NetDragon (Fujian) and all of the equity holders of NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets (the “Exclusive Acquisition Rights Agreement”), pursuant to which NetDragon (Fujian) and all its equity holders granted to TQ Digital or its designee (a) a right to acquire part or all of the equity interest in the registered capital of NetDragon (Fujian); and (b) a right to acquire part or all of the assets of NetDragon (Fujian) from the equity holders of NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by TQ Digital to the equity holders of NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law. If the minimum amount of consideration stipulated under the relevant PRC laws and regulations is higher than the nominal amount at the time of exercise of the acquisition right, Liu Dejian, Liu Luyuan and Zheng Hui had jointly, severally and irrevocably undertaken to reimburse the Company or its subsidiaries of any amount in excess of the nominal amount.

The Exclusive Acquisition Rights Agreement contains specific covenants given by NetDragon (Fujian) and its equity holders with respect to the governance of NetDragon (Fujian) and the conduct of the business of NetDragon (Fujian). Among these covenants, the equity holders of NetDragon (Fujian) have agreed not to transfer or encumber their equity interests in NetDragon (Fujian) without the consent of TQ Digital. NetDragon (Fujian) has agreed, among others,

- not to sell or encumber any of NetDragon (Fujian)’s assets without TQ Digital’s prior written consent or as permitted under the Equity Interest Pledge Agreement;
- not to change its registered capital structure without TQ Digital’s prior written consent;
- not to distribute profits of NetDragon (Fujian) to its equity holders;

STRUCTURE CONTRACTS

- to conduct the business of NetDragon (Fujian) in accordance with the Cooperation Framework Agreement and Management Committee's directions from time to time; and
- not to liquidate or dissolve NetDragon (Fujian) without TQ Digital's prior written consent.

The terms of the Exclusive Acquisition Rights Agreement commenced on 1 January 2007 and shall expire upon the end of the term of incorporation of NetDragon (Fujian), or the date on which the entire ownership interest of the assets or registered capital of NetDragon (Fujian) is purchased by TQ Digital or its designee, whichever is the earlier.

(7) Equity Holders' Voting Rights Proxy Agreement

On 15 October 2007, all equity holders of NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "Proxy Agreement") with TQ Digital and NetDragon (Fujian), pursuant to which all equity holders of NetDragon (Fujian) have irrevocably authorised TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting rights in NetDragon (Fujian). The term of the Proxy Agreement shall continue indefinitely for so long as NetDragon (Fujian) subsists in order to secure our control over NetDragon (Fujian).

In July 2007, to ensure the continuity of the Structure Contracts, NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), has applied for an ICP license to operate the online games in addition to NetDragon (Fujian) and NetDragon (Shanghai) has undertaken to enter into contracts substantially the same as the Structure Contracts with TQ Digital to ensure the continuity of the Structure Contracts. NetDragon (Shanghai) will apply for a revision of its business scope in its business license to include the operation of online games upon obtaining its ICP license.

In addition to the Structure Contracts, a service agreement which took effect on 1 July 2007 has been entered into between NetDragon (USA) and NetDragon (Shanghai). Although such service agreement does not form part of the Structure Contracts, a specific waiver will be sought from the Stock Exchange in respect of such agreement. Further details of the above service agreement are set out in the section headed "Waivers from the Stock Exchange" below.

Waivers from the Stock Exchange

The Company conducts internet content and information services through NetDragon (Fujian) and NetDragon (Shanghai) under the suite of Structure Contracts entered into between TQ Digital (an indirect wholly-owned subsidiary of the Company) and NetDragon (Fujian). As Liu Dejian, Liu Luyuan and Zheng Hui, being the executive Directors and the Controlling Shareholders, are interested in an aggregate of 98.9% in NetDragon (Fujian), NetDragon (Fujian) and NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), are technically associates of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company, NetDragon (BVI), TQ Digital, NetDragon (HK) or NetDragon (USA) (all being wholly-owned

STRUCTURE CONTRACTS

subsidiaries of the Company) on one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other hand, including the Structure Contracts, would technically be connected transactions and, unless an exemption is available under the GEM Listing Rules, must comply with the applicable disclosure, reporting and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the Structure Contracts are fundamental to the legal structure and the business operations of the Group and are on terms that are fair and reasonable so far as the Company is concerned and in the interests of the Shareholders as a whole. The Company also believes that the unique nature of the Group's structure whereby the results and financial condition of NetDragon (Fujian) is consolidated with our financial statements as if it is a subsidiary of the Company, and the economic benefit of their business flows to the Group, places the Group in a unique position in relation to the connected transaction rules. Accordingly, notwithstanding that the Structure Contracts technically constitute continuing connected transactions for the purposes of Chapter 20 of the GEM Listing Rules, the Directors consider that it would not be appropriate for the Structure Contracts to be subject to, amongst other things, the periodic approval of the independent Shareholders.

Therefore, the Company hereby applies to the Stock Exchange for a specific waiver in respect of the Structure Contracts and the Other Contracts with conditions as follows:

Specific waiver

(a) *Waiver for the Structure Contracts and the Other Contracts from strict compliance with Chapter 20 of the GEM Listing Rules*

The Structure Contracts will be exempt from strict compliance with the announcement, reporting and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. According to rule 20.35(1) of the GEM Listing Rules, the agreement must set out the basis of calculation of the payments to be made and the period for the agreement must be fixed and reflect normal commercial terms and, except in special circumstances, must not exceed three years. As the Directors are of the view that the Structure Contracts and the Other Contracts, with durations of over three years, are fundamental to the legal structure and business operations of the Group, and that flexibility has to be given to the Management Committee to determine the fees payable under each of the Structure Contracts in response to constantly changing PRC laws and regulations and other aspects of operations of the Group, the Structure Contracts and the Other Contracts will be exempt from strict compliance with rule 20.35(1) and rule 20.35(2) of the GEM Listing Rules.

(b) *No change without Shareholders' approval*

Save as described below, no changes to the Structure Contracts will be made without the approval of the Shareholders by ordinary resolution. Once Shareholders' approval of any change has been obtained, no further periodic or other approvals will be required under Chapter 20 of the GEM Listing Rules unless and until further changes are proposed.

STRUCTURE CONTRACTS

(c) *“Economic benefits” flexibility*

The structure under the Structure Contracts has been designed to enable TQ Digital through the Management Committee to implement the terms of the Structure Contracts relating to fees so as to allow the economic benefits generated by NetDragon (Fujian) to be flowed to TQ Digital, having regard to changes in the quantum of NetDragon (Fujian)’s and NetDragon (Shanghai)’s earnings and applicable PRC laws and regulations (including taxation), without requiring the approval of the Shareholders. The Structure Contracts also enable TQ Digital to receive the economic benefits derived by NetDragon (Fujian) and NetDragon (Shanghai) through the right to acquire NetDragon (Fujian)’s and NetDragon (Shanghai)’s equity interests and/or assets for a consideration fixed by the parties under the Structure Contracts and confirmed by the Management Committee in accordance with the relevant PRC laws and regulations without requiring the approval of the Shareholders.

(d) *Renewal and cloning*

On the basis that the Structure Contracts provide an acceptable framework for the relationship between the Company, NetDragon (BVI), TQ Digital, NetDragon (HK) and NetDragon (USA) on one hand and NetDragon (Fujian) and NetDragon (Shanghai), on the other, framework may be renewed and/or “cloned” upon the expiry of the existing arrangements or 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 this paragraph will apply.

(e) *Foreign-invested Telecommunication Enterprise (“FITE”) or Wholly Foreign-owned Enterprise (“WFOE”)*

Whenever the existing legal restrictions prohibiting foreign investment in business providing Internet content and information services in the PRC be abolished or relaxed, the Company intends to apply for the establishment of a FITE or a WFOE or acquire NetDragon (Fujian) and NetDragon (Shanghai) by exercising the right to acquire equity interest and asset under the Structure Contracts (collectively, the “Reorganization of Structure Contracts Arrangement”). This may require the Structure Contracts to be amended or terminated as the case may be. The Company shall be able to carry out the Reorganization of Structure Contracts Arrangement without Shareholders’ approval.

Conditions

The Company is prepared to accept conditions to be imposed by the Stock Exchange in respect of the above specific waiver as follows:

- (a) The Company will disclose the Structure Contracts and the Other Contracts in place during each financial period in our annual report and accounts in accordance with the relevant provisions of Rule 20.45 of the GEM Listing Rules;

STRUCTURE CONTRACTS

- (b) The Company's independent non-executive Directors will review the Structure Contracts and the Other Contracts annually and confirm in its annual report and accounts for the relevant year that the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structure Contracts and the Other Contracts, have been operated so as to allow the economic interest generated by NetDragon (Fujian) and NetDragon (Shanghai) to be flowed to TQ Digital and any new Structure Contracts and the Other Contracts entered into, renewed and/or cloned during the relevant financial period are fair and reasonable so far as the Company is concerned and in the interests of the Company's Shareholders as a whole;
- (c) The Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Structure Contracts and the Other Contracts and will provide a letter to the board of Directors, with a copy to the Stock Exchange, at least 10 business days before the Company bulk print its annual report, confirming that the economic interest generated by NetDragon (Fujian) and NetDragon (Shanghai) is flowed to TQ Digital are in accordance with the criteria and principles set out in the Structure Contracts and the Other Contracts and are properly approved by the Management Committee, that the net asset value of NetDragon (Fujian) at end of the year does not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000, and that no dividends or other distributions have been made by NetDragon (Fujian) or NetDragon (Shanghai) (save as to NetDragon (Fujian)) to the holders of its equity interests;
- (d) For the purpose of Chapter 20 of the GEM Listing Rules, and in particular the definition of "connected person", each of NetDragon (Fujian), NetDragon (Shanghai) and any other newly established operating company, will be treated as a subsidiary of the Company, but at the same time, the directors, chief executive, substantial shareholders or management shareholders of NetDragon (Fujian), NetDragon (Shanghai) and any other newly established operating company, and their respective associates will be treated as "connected persons" of the Group (including NetDragon (Fujian), NetDragon (Shanghai) and any other newly established operating company) and transactions (excluding the Structure Contracts and the Other Contracts) between these connected persons and the Group (including NetDragon (Fujian), NetDragon (Shanghai) and any other newly established operating company), shall comply with Chapter 20 of the GEM Listing Rules; and
- (e) NetDragon (Fujian) and NetDragon (Shanghai) will provide to the Company an undertaking that, for so long as the Shares are listed on the Stock Exchange, NetDragon (Fujian) and NetDragon (Shanghai) will allow the Company and its auditors to have full access to relevant records of NetDragon (Fujian) and NetDragon (Shanghai) for the purpose of the Company's auditors' review of the transactions referred to above.

STRUCTURE CONTRACTS

In addition to the Structure Contracts, a service agreement which took effect on 1 July, 2007, has been entered into by and between NetDragon (USA) and NetDragon (Shanghai) pursuant to which NetDragon (Shanghai) will provide various services to NetDragon (USA) in exchange for a flat fee calculated based on the number of servers running certain non-Chinese language games. Pursuant to this service agreement, NetDragon (Shanghai) will: (1) provide email correspondence to answer inquiries from customers including payment and password related issues; (2) handle customer complaints regarding hacked accounts and assist such customers in resolving their concerns; and (3) monitor the status of certain servers and perform server maintenance when needed. The term of such service agreement is five years. Other than the above, we expect that there may be other contracts to be entered from time to time (together with the service agreement between NetDragon (USA) and NetDragon (Shanghai), the “Other Contracts”) between the Company and its subsidiaries on the one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other. So far as are foreseeable by the Directors, the Other Contracts to be entered into from time to time between the Company and its subsidiaries on the one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other will include other service agreements and/or cooperation and license agreements between TQ Digital and NetDragon (Shanghai) after NetDragon (Shanghai) has obtained the requisite licenses for providing internet content and operating online games. Given that the results of NetDragon (Fujian) and NetDragon (Shanghai) are consolidated into the Group’s accounts, and given the relationship between the various companies within the Group (including NetDragon (Fujian) and NetDragon (Shanghai) created by the Structure Contracts, the Directors also consider that it would not be appropriate for the Other Contracts to be subject to, amongst other things, the periodic approval of the independent Shareholders.

Joint Sponsors’ View

The Joint Sponsors are of the view that the Structure Contracts taken as a whole is fair and reasonable and in the interests of our Shareholders as a whole.

BUSINESS

OVERVIEW

We are one of the leading online game developers and operators in the PRC as proven by the awards and recognition we and our online games have received. Our portfolio consists of a range of MMORPGs catering to various types of players. Our strong online game development capability enables us to create our own games and to upgrade our existing games in a timely and efficient manner. In addition, our proprietary customer information system tracks players' behaviour and purchasing patterns to allow us to design more appealing game contents. By employing our player-driven development philosophy and our integrated operation model, we have been able to swiftly adapt to trends in the online game industry, such as offering online games to players free of charge and then generating revenue from the sale of virtual items. With these strategies and capabilities, we believe we can effectively satisfy our customers' demand and capture the market opportunities to further strengthen our position in the industry.

We currently offer five proprietary games, namely Eudemons Online, Conquer Online, Zero Online, Monster & Me and Era of Faith. We have achieved significant revenue growth, particularly over the past two years from the strong performance of Eudemons Online and Conquer Online, our flagship games and major revenue generators. We launched Eudemons Online in March 2006 and had over 325,000 PCU and 70,000 ACU in the same year. The PCU and ACU further increased to more than 496,000 and 243,000, respectively for the six months ended 30 June 2007. As to Conquer Online, even in its fourth year of operation, we still enjoyed approximately 34.3% and 34.5% increases in PCU and ACU, respectively for the six months ended 30 June 2007 compared to the same period in 2006. We launched Zero Online in late April 2007 and we had over 53,000 PCU and 21,000 ACU during the period from its launch to 30 June 2007.

We have achieved significant growth in revenue during the Active Business Pursuit Period:

- Eudemons Online had revenue of approximately RMB69.5 million and RMB185.0 million for the year ended 31 December 2006 and the six months ended 30 June 2007, respectively.
- Conquer Online had revenue of approximately RMB51.1 million and RMB61.9 million for the year ended 31 December 2006 and the six months ended 30 June 2007, representing approximately 58.1% and 156.5% increases compared to the same periods in 2005 and 2006, respectively.
- We reported total revenue of approximately RMB122.1 million and RMB261.7 million for the year ended 31 December 2006 and the six months ended 30 June 2007, representing approximately 247.6% and 902.4% increases compared to the same periods in 2005 and 2006, respectively.

We currently have three games in our development pipeline, namely Happiness Q, Piao Miao Online and Heroes of Might and Magic Online. These new games offer different themes and gaming experience to attract various types of players. We expect to launch Happiness Q in 2007, Piao Miao Online and Heroes of Might and Magic Online in 2008.

BUSINESS

We operate our online games under the FTP model which encourages more players to experience our games. Under this model, our revenue is generated by selling virtual items, such as virtual weapons, armours and spells. Through continuous improvements and upgrades to our games, we believe that we can enhance the popularity, increase the revenue and extend the life cycle of our games.

We currently have three distribution and payment channels, comprising (i) direct sales; (ii) pre-paid card sales through distributors; and (iii) cooperation channels. Our direct sales includes online payment systems and other direct sales channels. Online payment systems under direct sales accounted for approximately 52.2%, 60.5% and 67.3% of our total revenue for each of the two years ended 31 December 2006 and the six months ended 30 June 2007, respectively.

In the PRC market, our revenue grew over 454.0% and 23.1 times for the year ended 31 December 2006 and the six months ended 30 June 2007, respectively compared to the same periods in 2005 and 2006, respectively.

We also enjoy significant sales by introducing non-Chinese language games, such as English, French and Spanish versions. This multi-language approach has proven to be a success, demonstrated by the 102.1% and 203.5% increases in revenue generated from the non-Chinese language market in the year ended 31 December 2006 and the six months ended 30 June 2007 compared to the same periods in 2005 and 2006, respectively.

COMPETITIVE STRENGTHS

We believe that our success in the online game market is primarily attributable to our following competitive strengths:

Our strong game development capabilities

We possess strong game development capabilities. Our integrated game development process comprising game design, programming, graphics and testing, enables us to control all the quality, cost and pace of development. In addition, our core game development team has been working together for years and this close relationship provides a stable foundation for our future development. A majority of our game developers have at least three years of game development experience and hold university degrees. Further details of our game development team and our strategies to retain human resources are set out in “Business - Our operations - Game development” and “Directors, senior management and staff - Staff” of this prospectus, respectively. Coupled with advanced technologies, we have successfully developed a game portfolio with an extensive game development pipeline targeting different players for our future growth in the PRC and the overseas markets. With our game development capabilities and intellectual rights to our online games, we are also able to timely and efficiently launch our new online games and upgrade our existing online games to capture the market opportunities.

Our player-driven development approach contributing to a proven portfolio and a well-planned game development pipeline

We adopt a player-driven approach in developing our online games by focusing on the needs and demands of players. A majority of our new game players are referred through recommendations of other players. Leveraging on our game development capabilities and our proprietary data base, we have strategically created a diversified portfolio of online games and development pipeline targeted at various types of players. For example, Eudemons Online targets players who enjoy games of demon fantasy, Conquer Online targets at players who enjoy heroic spirit of the ancient martial era and Zero Online is for those players who prefer robot fighting games.

Our proprietary customer information system to capture customer usage information

We have developed a comprehensive proprietary customer information system tracking data of our players daily, including their behaviour and purchasing patterns. Our management will first analyse the data to understand players' needs and preference, our game development team will then create new games or improve the existing games based on our management analysis. We can then quickly attract players to play our games, which operate under the FTP model. Our game development team also continues to adapt our games by adding more features to cater players' preference as shown in such analysis. Our proprietary data base has proven to be a useful and reliable source of players' information. Together with our strong game development capability, we believe that we can enhance the popularity, prolong the growth and extend the life cycle of our games.

Our geographically diversified player base

Our online games, especially Eudemons Online, have proved to be very popular in the PRC market, generating revenue of approximately RMB69.5 million and RMB185.0 million for the year ended 31 December 2006 and the six months ended 30 June 2007. While maintaining a leading position in the PRC online game market as proven by the awards and recognition we and our online games have received, we have also successfully offered our online games in various languages, including English, French and Spanish. This multi-language approach has proven to be a success, demonstrated by revenue generated from our non-Chinese language players of approximately RMB20.6 million, RMB41.6 million and RMB53.0 million for the each of the two years ended 31 December 2006 and the six months ended 30 June 2007, respectively. This approach enables us to increase the return of the investment in our games, minimises the risk of market disruptions or downturns and to captures the high potential growth in any geographical market.

Our well established and extensive distribution and payment channels

We have developed extensive distribution and payment channels, including (i) direct sales; (ii) pre-paid card sales through distributors; and (iii) cooperation channels. Our direct sales through online payment systems accounted for approximately 52.2%, 60.5% and 67.3% of our total revenue for each of the two years ended 31 December 2006 and the six months ended 30 June 2007, representing an

BUSINESS

encouraging growth during the Active Business Pursuit Period. We have also established a diversified base of distribution and payment channels in the PRC comprising distribution partners under other direct sales channels, pre-paid card sales through nationwide distribution networks and retail outlets as well as channels provided by our cooperation partners.

Our experienced management team

We believe that our success is largely attributable to our experienced management team. We have benefited from a stable management environment since our establishment. Our chairman, Liu Dejian, has more than seven years of experience in the Internet industry in various aspects, including game development, IT technology, marketing, business development, management and overseas operation. Our various experts in game development, management and operation in both the PRC and overseas markets are also the key factors for our success. We believe that our dedicated team of employees can enable us to remain competitive in the online game industry. Further details of our Directors, senior management and staff are set out in “Directors, senior management and staff” in this prospectus.

OUR MMORPGS

Our MMORPGs are online computer role-playing games in which a large number of players interact with one another in a virtual world. Typical features of our MMORPGs include the following:

- Players assume the role of a fictional character and take control over many of that character’s actions.
- A game character has different strengths and weaknesses and each game character can gain experience and collect game features, including various virtual items.
- A game character can form teams or alliances to achieve certain game objectives.
- A game character can communicate extensively amongst themselves.
- A game character can assume real-life social experiences, such as getting married with another game character.
- Players can experience a world which continues to exist and evolve while the player is away from the game and the game does not have a natural ending.
- The game continues to have new features introduced.
- There is no official endings and players enjoy the games by competing with the other players on an on-going basis.

We believe that these features facilitate the development of players’ loyalty to our online games, to online communities among players and, ultimately, to us.

BUSINESS

Our online games can be accessed and played at any location with an Internet connection. Players can download free of charge the user-end software for respective game from the official website. After the user-end software is installed, players can set up a user account and password for the game, and then access and play the game from any location with an Internet connection.

EXISTING GAMES

Eudemons Online

Background

Eudemons Online is a 2.5D MMORPG targeting players interested in demon fantasy games. The background of the game is based on a mythic world where players can choose to play the role as a warrior, mage or paladin. Players command game characters and eudemons to adventure on the vast virtual land in the game. The main feature of Eudemon Online is its highly interactive communication among players. Players advance and gain levels in the game by defeating devils and monsters. As at the Latest Practicable Date, we offered over 150 virtual items for Eudemons Online with price ranging from less than RMB0.1 to over RMB300. The virtual items for Eudemons Online can be classified into four categories, namely equipment (such as sword and armour to increase the ability of the game character), eudemons (such as fire and ice eudemons to assist the game character's adventure), function items (such as experience package and recovery items to enhance the experience of the game) and luxury items (such as clothing and flowers as gifts among the players).

Milestone

We formulated the game proposal of Eudemons Online in 2004. The closed beta testing of the Chinese version of Eudemons Online was conducted in the second quarter of 2005 and we launched the Chinese version of Eudemons Online in the PRC market in March 2006 under the FTP model. Since then, this game has become very successful with a large and growing player base.

For the non-Chinese language market, the English version of Eudemons Online was launched to the market in June 2006 under the FTP model.

Since the launch of Eudemons Online, we have enjoyed remarkable growth in PCU and ACU:

	For the three months ended					
	31 March 2006	30 June 2006	30 September 2006	31 December 2006	31 March 2007	30 June 2007
PCU	26,000	50,000	128,000	325,000	438,000	496,000
Approximate quarterly growth rate	—	92.3%	156.0%	153.9%	34.8%	13.2%
ACU	17,000	31,000	56,000	140,000	213,000	274,000
Approximate quarterly growth rate	—	82.4%	80.6%	150.0%	52.1%	28.6%

BUSINESS

We had two major upgrades in Eudemons Online during the Active Business Pursuit Period and a further upgrade in August 2007. In June 2006, the major enhancements of the upgrades include improving the images of the eudemons, adjusting the functions of the virtual items, adding more eudemons and introducing a new army combating format to the game. In February 2007, the major enhancements of the upgrades include upgrading of the eudemons' combating nature and improving the ranking of the armies in the game. We also expect to upgrade Eudemons Online in the fourth quarter of 2007 by introducing castle building element to the game.

Eudemons Online is highly regarded by the market and was awarded by QQ.com the Best New Online Game for 2006, the Most Popular MMORPG for 2006 and the Most Popular Online Game for 2006.

Conquer Online

Background

Conquer Online is a 2.5D MMORPG targeting players interested in heroic spirit of the ancient martial era games. Players can choose to play from four different game characters, namely trojan, warrior, archer and taoist, which are customised with unique weapons and skills. Each player can gain numerous levels, skills and abilities in the game. Real-time one-to-one combat is a big feature of Conquer Online. As at the Latest Practicable Date, we offered over 130 virtual items for Conquer Online with price ranging from less than RMB0.1 to over RMB900. The virtual items for Conquer Online can be classified into two categories, namely equipment (such as sword and armour to increase the ability of the game character) and function items (such as experience package and recovery items to enhance the experience of the game).

Milestone

We formulated the game proposal of Conquer Online in 2002. The closed and open beta testing of the Chinese version of Conquer Online was conducted in the first half year of 2003. The Chinese version of Conquer Online was launched in September 2003 under the pay-to-play business model whereas the players were charged by time spent in playing the games. In June 2006, we converted the Chinese version of Conquer Online into the FTP model.

We launched the English version of Conquer Online under the FTP model in January 2004. Conquer Online is also provided to the players in various languages, including English, French and Spanish. A majority of our revenue in Conquer Online was generated by the English version of the game during the Active Business Pursuit Period.

BUSINESS

PCU and ACU of Conquer Online continued to grow as it entered the fourth year of operation. Based on our data, the following table illustrates the number of PCU and ACU and the approximate quarterly growth rate of Conquer Online during the Active Business Pursuit Period:

	For the three months ended									
	31 March 2005	30 June 2005	30 September 2005	31 December 2005	31 March 2006	30 June 2006	30 September 2006	31 December 2006	31 March 2007	30 June 2007
PCU	31,000	34,000	40,000	47,000	60,000	66,000	74,000	82,000	85,000	89,000
Approximate quarterly growth rate	—	9.7%	17.6%	17.5%	27.7%	10.0%	12.1%	10.8%	3.7%	4.7%
ACU	23,000	24,000	29,000	33,000	43,000	50,000	54,000	59,000	61,000	64,000
Approximate quarterly growth rate	—	4.3%	20.8%	13.8%	30.3%	16.3%	8.0%	9.3%	3.4%	4.9%

We had four major upgrades on June 2005, January 2006, July 2006 and February 2007 in the Chinese version of Conquer Online during the Active Business Pursuit Period and a further upgrade in August 2007. As to the English version of Conquer Online, there were six major upgrades on May 2005, November 2005, March 2006, December 2006 and February 2007 during the Active Business Pursuit Period and a further upgrade in August 2007. The major enhancements include adding more maps, monsters and characters, adjusting the abilities of monsters, adjusting features of equipment, introducing new combating systems and upgrading the automatic navigating and team formation systems. We also expect to upgrade Conquer Online in January 2008 by upgrading the ranking and character acting functions.

Conquer Online was awarded by www.chinajoy.net “Golden Plume Prize” for the Best Original Online Game of 2005 and by Shanghai Municipal Informatisation Commission (上海市信息化委員會) and Shanghai Municipal Press Publication Bureau (上海市新聞出版局) as the Best Export Product Award for 2006.

Zero Online

Background

Zero Online is a 2.5D MMORPG targeting players interested in robot fighting games. Players can choose among two types of robots specialising in melee and ranged combats. Apart from the conventional upgrade and skills, we also offer virtual item customisations which can enhance players’ in-game experience. As at the Latest Practicable Date, we offered over 80 virtual items for Zero Online with price ranging from less than RMB0.2 to over RMB300. The virtual items for Zero Online can be classified into three categories, namely equipment (such as engine and cannon to increase the ability of the robot controlled by the game character), function items (such as experience package and recovery items to enhance the experience of the game) and luxury items (such as special stones and flowers as gifts among the players).

Milestone

We formulated the game proposal of Zero Online in 2004. Zero Online was launched in April 2007 under the FTP model.

BUSINESS

We reported over 53,000 PCU and 21,000 ACU for Zero Online since the launch date and up to 30 June 2007.

We had a major upgrade in September 2007 for Zero Online. Major enhancements include introduction of new types of robots to the game. We also expect to upgrade Zero Online in the fourth quarter of 2007 by introducing large-scale galaxy wars and new commanders to the game.

Others

Other MMORPGs launched by us include Monster & Me and Era of Faith.

Monster & Me is our first developed MMORPG. It was launched in July 2002. This 2D turn-based game features cartoon pets in series of battles mainly targeting at female players.

Era of Faith was launched in June 2004. It is a western-style mythical MMORPG featuring a virtual medieval fantasy world where players can customise their game characters with different development directions and in-game weapons.

As at the Latest Practicable Date, we offered over 40 virtual items for Monster & Me and Era of Faith with a price ranging from RMB1 to over RMB70. The virtual items for Monster & Me and Era of Faith include pets, weapons and recovery items.

GAME DEVELOPMENT PIPELINE

We are currently developing the following online games:

Happiness Q

Background

Happiness Q is a 2.5D MMORPG. The turn-based game allows players to raise the cartoon virtual pets to assist the game characters in series of in-game battles. Players will be able to combat and gain level for their game characters by purchasing various virtual items, including virtual weapons, jewellery and pets.

Current Status

We formulated the game development project of Happiness Q in 2006. We have commenced its closed beta testing and expect to launch the game in the fourth quarter of 2007.

Piao Miao Online

Background

Piao Miao Online is a 2.5D MMORPG targeting players interested in martial art games. The game is set in a virtual traditional Chinese legacy background. The key strength of the game is the rich personification of its game characters, including their roles and appearances.

BUSINESS

Current Status

We formulated the game development project of Piao Miao Online in July 2006. We have commenced the closed beta testing and expect to launch the game in the second quarter of 2008.

Heroes of Might and Magic Online

Background

Heroes of Might and Magic Online is a 2.5D MMORPG. The game is being developed based on a well-known PC game licensed to us by Ubisoft. The game is targeted at the existing PC game players worldwide of Heroes of Might and Magic PC game and players who prefer strategic games. The game has an established storyline built on Ubisoft's existing Heroes of Might and Magic PC game. This turn-based strategic game is set in a virtual medieval heroic fantasy background where players are given control of a virtual hero who in turn controls an army in the game. Through the capture of towns in the game, players can hire additional armies to assist in the conquest. We intend to offer different virtual items for players, including virtual weapons and game maps.

Current Status

We formulated the game development proposal of Heroes of Might and Magic Online in 2004. We have commenced the closed beta testing of the game and expect to launch the game in 2008.

OUR OPERATIONS

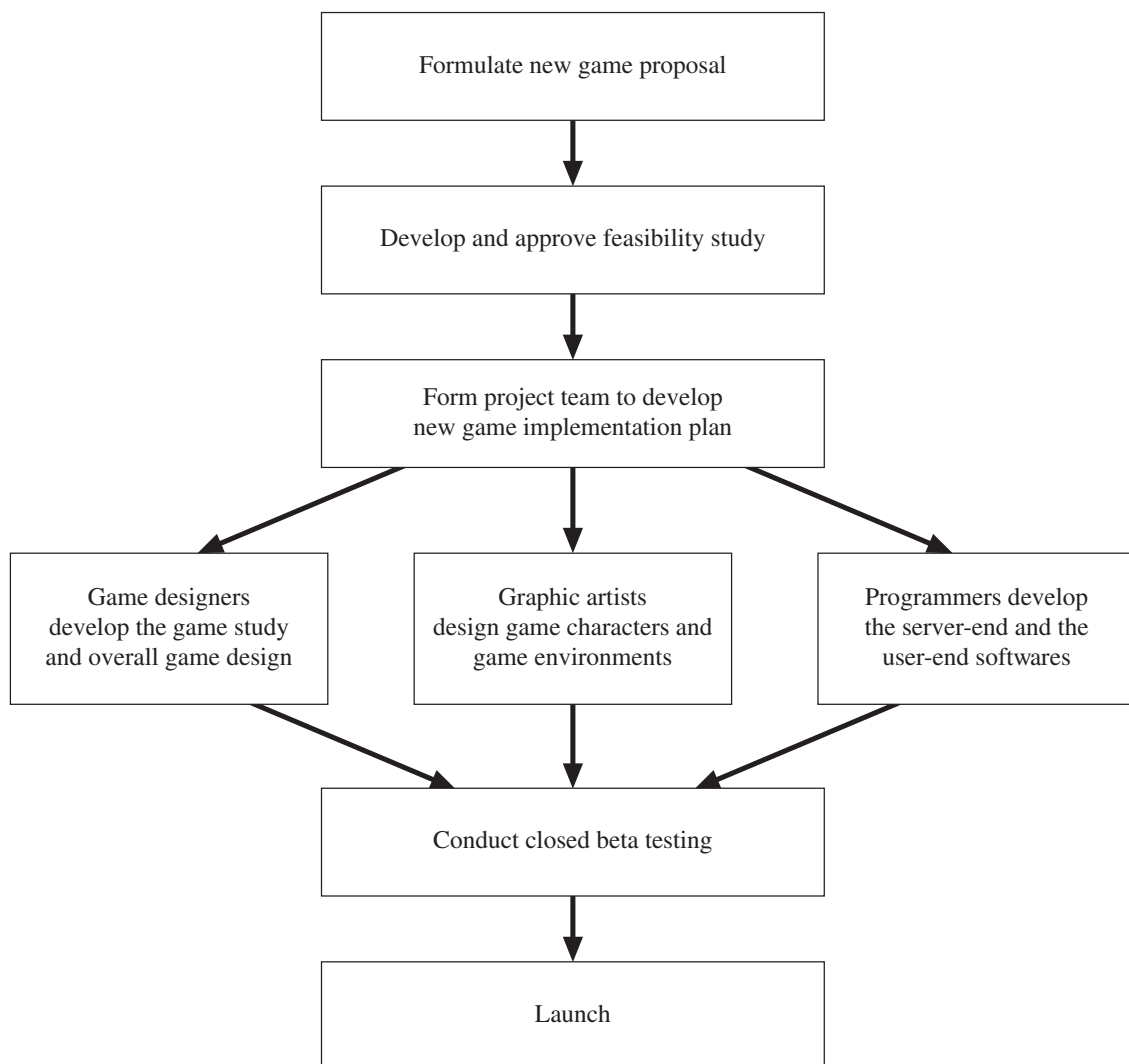
FTP Model

We tactically operate our online games under the FTP model. We offer free download of our online games to players whereas our revenue is generated by selling virtual items. Players may register a game account under one of our game servers. Players can then enjoy our games without buying any virtual items. If they wish to further enhance the experience in our games, players can then purchase virtual items we offer where they can then credit respective game accounts through our distribution and payment channels for game points. Players can then purchase virtual items with the game points. The FTP model has proven to be very successful in attracting new players quickly. Moreover, by adding more features and contents to our games, our players are likely to purchase various virtual items to enhance their in-game experience over time and thereafter, to extend our game life cycles.

Game development

Our game development centre is located in Fuzhou, the PRC. As at 30 June 2007, we had 309 game development employees in our game development department. Our game development department is responsible for both new game development and game improvement and upgrade. As at 30 June 2007, a majority of the members in our game development team have at least three years of game development experience and hold university degrees in game development related subjects. Our game development department includes (i) games designers, who are responsible for the development of the game study and the overall game design; (ii) graphic artists, who are responsible for the design of game characters and game environments; and (iii) programmers, who are responsible for development of the server-end and the user-end softwares. Our game development department is led by the chief game designer and our chairman, Liu Dejian, an executive Director, details of which are set out in “Directors, senior management and staff” of this prospectus. We have an integrated game development system that comprises the process from game design, programming, graphics to testing activities. We continue to improve and upgrade our online games and introduce new features to attract existing and potential players.

Our senior management team meets regularly to evaluate the market trend and formulate new game proposals. For our new online games, we have established a game development process as follows:

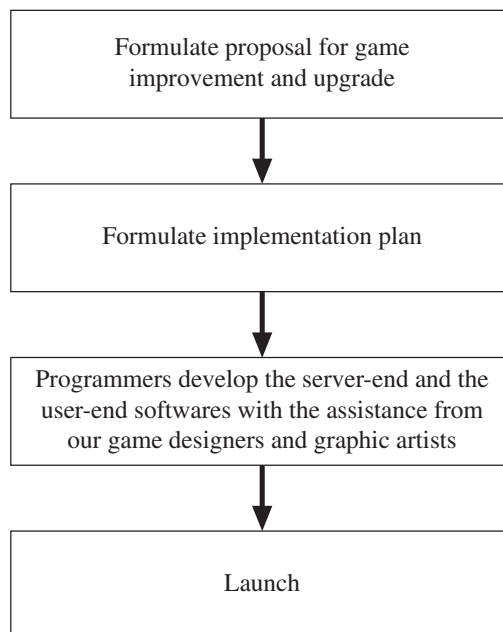


BUSINESS

A new game proposal is usually generated by the game designer team which is led by our chief game designer. When a written proposal is formulated, our marketing research team will conduct a market feasibility study with reference to a number of information including online survey, external player group feedback and product analysis. The report will be reviewed by a committee formed by our game designer, technology officer, game operation officer and financial officer. The formulation of the same proposal and the feasibility study usually last for six months to nine months. Upon approval of the feasibility study, we will form a project team to develop new game implementation plan. Based on the new game implementation plan, (i) game designers will develop the game study and overall game design; (ii) graphic artists will design game characters and game environments; and (iii) programmers will develop the server-end and the user-end softwares. Each step of their work has to be approved by its own project leader and the final written approval by our chief game designer. The programme development typically lasts for six months.

We conduct closed beta testing with a selected group of players in preparation for the commercial launch of each of our new MMORPGs. Players under the closed beta testing will report any technical problems that they encountered and recommendations of additional features. We will then improve our new MMORPGs. Our quality assurance team will follow its pre-determined testing procedure to test the game before launch. After our quality assurance team and legal department approve the game, we will conduct a final review on the game for a final written approval. Depending on the results generated by our performance evaluations, the closed beta testing period usually lasts up to six months. As we adopted the FTP model, the closed beta testing is followed by the commercial launch of the games. After the commercial launch of our games, we will continue to closely monitor the performance, consistency and stability of operational systems for the game. We have not experienced any failure in the development of our MMORPGs during the Active Business Pursuit Period.

We have a game improvement and upgrade team, adopting the following procedures:



BUSINESS

Our new games under development include Happiness Q, Piao Miao Online and Heroes of Might and Magic Online, details of which are set out in “Business - Game development pipeline” to this prospectus.

To further improve our game development capability, we have licensed Unreal 3 game engine, a software to develop 3D games, from Epic Games Inc. in October 2006 for the development of our new 3D games. We have already started a trial 3D project. It is our goal to develop 3D online games.

Pricing

Our pricing strategy focused on maintaining the attractiveness of each game product, stimulating players’ spending on our virtual items and maximising our revenue. Our game designers are responsible for the pricing of our virtual items. The price of each virtual item is determined by the data from our customer information system. As at the Latest Practicable Date, the Group had over 400 virtual items available for sale with price ranging from less than RMB0.1 to over RMB900 to suit different demands from players. We offer special virtual items during seasonal occasions to attract players to enjoy the games. Those virtual items will only be valid within the seasonal occasions. Other than that, the virtual items we offer to the players are valid to be used without a definite period.

Marketing

Word-of-mouth referral is a major channel for promoting our online games. Our internal data shows that a majority of players are attracted to our games through others’ recommendations.

Our customer information system tracks daily usage data and produces a comprehensive report. Based on such report, marketing plans will be formulated accordingly. We promote our games in two channels: (i) in-game marketing; and (ii) marketing through external channels. As to in-game marketing, we offer bonus game points and organise in-game events, such as combat competitions.

As to marketing through external channels, we post advertisements in various Internet portals and online game websites. We have also participated in various exhibitions, including the international computer games exhibition, E3, and the PRC nationwide game exhibition, ChinaJoy, for years. In addition, we conduct focused promotional activities targeting distributors and Internet cafes, and provide sponsored prizes and posters.

To strengthen our marketing capability, we have also engaged Ogilvy as our marketing consultant to design, manage and help implement our marketing strategy in the PRC. Ogilvy provides us specialised advertising and publicity services in the PRC, including promotion of our corporate image and our online games.

NetDragon (Fujian) is responsible for the online game operation, including sales and marketing, whereas NetDragon (Shanghai) is mainly responsible for customer services for our oversea market. In addition, NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), assists NetDragon (Fujian) in carrying out its sales and marketing activities. Our PRC legal adviser, Dacheng Law Offices, has confirmed that NetDragon (Fujian) is allowed under the PRC laws and regulations to be engaged in

BUSINESS

the marketing of online games and NetDragon (Shanghai) is allowed to assist NetDragon (Fujian) in carrying out its sales and marketing activities. NetDragon (Shanghai) does not charge any fees for such facilitating activities in sales and marketing. Thus, such facilitating activities are not its profit-aiming operation activities.

Distribution and payment

We have established the following distribution and payment channels with extensive coverage in the PRC and the overseas markets:

- Direct sales;
- Pre-paid card sales through distributors; and
- Cooperation channels.

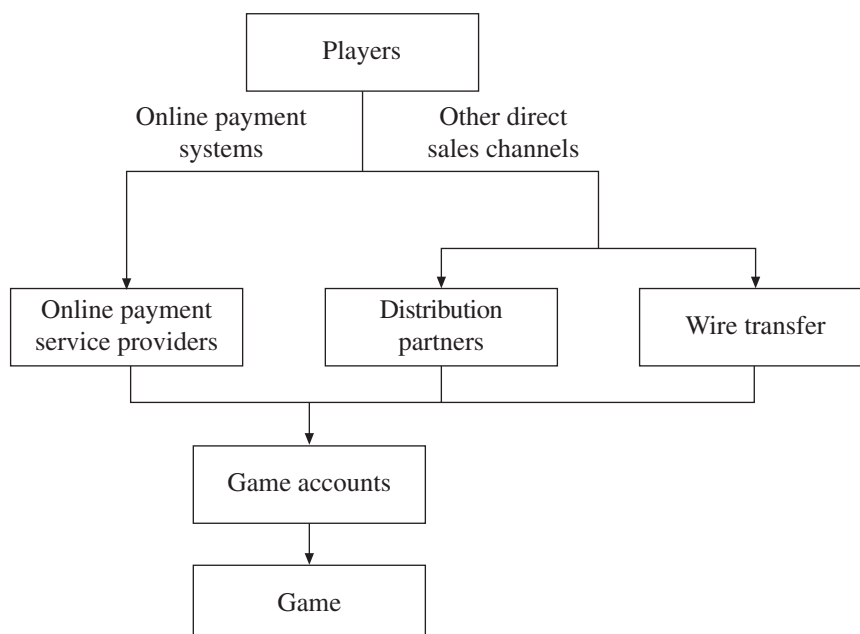
The table below is a breakdown of our online game revenue by our different distribution and payment channels during the Active Business Pursuit Period:

	For the year ended 31 December				For the six months ended 30 June 2007	
	2005		2006			
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Direct sales						
— online payment systems	18,332	52.2	73,893	60.5	176,147	67.3
— other direct sales channels	6,553	18.6	23,045	18.9	53,070	20.3
Pre-paid card sales through distributors	7,961	22.7	21,856	17.9	26,949	10.3
Cooperation channels	<u>2,273</u>	<u>6.5</u>	<u>3,267</u>	<u>2.7</u>	<u>5,583</u>	<u>2.1</u>
Total	<u>35,119</u>	<u>100.0</u>	<u>122,061</u>	<u>100.0</u>	<u>261,749</u>	<u>100.0</u>

BUSINESS

Direct sales

Our direct sales includes (i) online payment systems; and (ii) other direct sales channels. The following diagram illustrates our direct sales channel:



Under our online payment systems, players may credit their game accounts through our online payment service providers. As at 30 June 2007, we had an aggregate of six online payment service providers, covering most of the major banks in the PRC, of which players may credit their game accounts by debiting their bank accounts, credit cards or debit cards online. The online payment service providers in the PRC typically charge us commissions of 0.1% to 1.0% of the total amount players made for their services and we generally offer credit terms ranging from one to 30 days for the online payment service provider in the PRC. In the overseas market, players can pay through payment service provider, PayPal, which typically charges us commissions of 1.9% to 2.9% plus US\$0.3 per transaction made by players for its services.

Under our other direct sales channels, players in the PRC may credit their game accounts through our distribution partners. Distribution partners market and sell their own virtual points by issuing pre-paid cards or other distribution and payment methods through their platforms. Our players can utilise the virtual points of these distribution partners, such as Shanda and Tencent, to credit their respective game accounts with us. A majority of our distribution partners charge us a commission of approximately 25% of the total amount paid by the players. We generally offer credit periods ranging from 30 to 45 days to the distribution partners. Players can also credit their game accounts through telecommunication voice service and mobile SMS service providers, which generally charge us fees ranging from 15% to 51% of the total amount paid by the players while we generally offer them credit periods ranging from 30 to 45 days.

In addition, players can directly credit their game accounts by wire transfer.

BUSINESS

The income earned and received from our direct sales in the PRC is recognised net of the commission and discounts.

Pre-paid cards sales through distributors

Our pre-paid cards are sold in both virtual and physical forms through third party sales distributors. Each pre-paid card contains a unique access code and password that enables players to credit their respective game accounts.

We offer pre-paid virtual cards to various sales distributors in the PRC. Each of our sales distributors has an account in our online sales system. A sales distributor must first order pre-paid virtual cards and make the corresponding payments. Upon receipt of their payment, we will allocate to the sales distributor the pre-paid virtual cards, in the form of access codes and passwords. Players may purchase our pre-paid virtual cards in various denominated amounts and they can then credit the value of the virtual cards to their game accounts using the access code and password contained thereof. We currently offer sales distributors a sales discount of approximately 25% which represents the difference between the price at which we sell pre-paid virtual cards to the sales distributors and the face value of the cards.

In the PRC, we also distribute our physical pre-paid game cards through our distribution network, which in turn distribute our physical pre-paid cards through newsstands, convenience stores, software stores and book stores. We have not set any actual deadline for the pre-paid game cards and the pre-paid game cards can be used anytime after they are bought by distributors and the ultimate users. We generally enter into a one year distribution agreement with each physical game card distributor for a designated sales territory. Our distributors purchase our physical pre-paid game cards, which they then resell to sub-distributors and retail points of sale. We require full payment prior to delivery of physical pre-paid game cards to distributors. Players may purchase our physical pre-paid cards in various denominated amounts. We currently offer a sales discount of approximately 25% to our distributors. The sales discount represents the difference between the price at which we sell pre-paid cards to the sales distributors and the face value of the cards.

The income earned and received from our pre-paid cards sales through distributors is recognised net of the commission and discounts.

Cooperation Channels

Our certain online games are operated through the platforms of cooperation partners including TOM.com operated by Leitingwanjun and the online platforms operated by Xunlei. We share the revenue under such cooperation arrangements. Our revenue sharing ratio is calculated based on a pre-determined percentage, generally ranging from 25% to 55%, of the revenue generated from operating the online games by these cooperation partners. We generally offer credit periods ranging from 30 to 45 days to the cooperation partners. In addition, we generally have to provide our cooperation partners, amongst other things, server settings, instructions for maintaining servers, technical training, advertising and promotional materials. Our share of revenue generated from the cooperation arrangements with the cooperation partners is net of commission and discounts being incurred and we are not obliged to pay any additional charges to the cooperation partners for the use of their online platforms.

BUSINESS

The online games are operated through the platforms of the cooperation partners and the online game revenue is received by the cooperation partners directly through their own sales channels. Then, the cooperation partners will pay the Group according to the agreed sharing ratio in a monthly basis.

The revenue generated from such cooperation arrangements is collected by TQ Digital on behalf of NetDragon (Fujian). As confirmed by our PRC legal adviser, Dacheng Law Offices, the arrangements, including the terms of the cooperation arrangements between NetDragon (Fujian) and the cooperation partners and the settlement arrangement between TQ Digital and NetDragon (Fujian), do not contravene any applicable PRC laws and regulations.

Customer management

We offer customer services to our players, including 24-hour call centre and email replies. In addition, we offer bulletin board services for players to post questions to, and receive responses from, other players. Other services provided to players include addressing problems in payment methods, retrieving forgotten passwords and recovering lost user accounts. In addition, we investigate and address irregularities in game operation reported by players, including eliminating cheating programmes that are used by players to enable their game characters to acquire superior in-game capabilities.

To further enhance our customer management services, we have outsourced part of our customer services functions to our PRC based players to a related company, Fuzhou Tianliang, which is specialising in customer management services. Details of the relationship and the connected transactions between Fuzhou Tianliang and us are set out under the section headed “Relationship with the controlling shareholders and non-competition undertakings - Continuing connected transactions” in this prospectus. We provide customer services to our overseas market internally.

In addition, we establish a VIP system to provide priority customer services to our high usage players. We offer various incentives under our VIP system, including priority customer services, such as first hand game updated information. Our VIP players may also credit their accounts through our online payment systems. We also offer our VIP players a special forum where they can share their experience and communicate with our game designers directly. The VIP players can also participate in special online events we organised. Our VIP players are divided into six categories based on our players’ accumulated usage. As at 30 June 2007, we had over 260,000 registered VIP players which accounted for approximately 32.2% and 54.7% of our total revenue for the year ended 31 December 2006 and the six months ended 30 June 2007, respectively. Our VIP system assists us to identify high usage players with more data to analyse their preference and requirements. Consequentially, we can provide customised services and products to our customers to enhance their loyalty.

TECHNOLOGY INFRASTRUCTURE

We have developed an extensive technology infrastructure that supports the operation of our online games across the PRC and the overseas markets. As at 30 June 2007, our server network for our online game operations consisted of about 1,267 servers and among them, 759 are game servers

BUSINESS

with the capacity to accommodate up to an aggregate of over 1.1 million concurrent online players. As at 30 June 2007, the number of the total PCU of all online games was approximately 600,000, representing approximately 54.5% of our server capacity. The table below sets out the numbers and locations of our servers as at 30 June 2007:

Location of servers	Fuzhou, the PRC	Shenyang, the PRC	Guangzhou, the PRC	Beijing, the PRC	Changzhou, the PRC	California, the USA
Number of servers	781	274	87	1	15	109

The stable operation of our online games requires a significant number of servers and bandwidth. We have located game servers for online games in major regions in the PRC. As to our overseas market, game servers are located in the USA. We have a contingency plan to deal with emergency incidents, including server failure. In case of server failure, the contingency server room in Guangzhou will commence operation. Data will be uploaded to keep our players' data up to date. At the same time, our server providers will assist us to rebuild the network.

As at 30 June 2007, NetDragon (Fujian) owned approximately 61.3% of the servers in our server network and we lease the remaining 38.7% from Independent Third Parties. We have three types of server leasing service providers. For those we prepaid the charges half-yearly or yearly, the monthly rental charges are calculated with reference to the configuration of servers, the bandwidth capacity and number of Internet portal address. For those we pay monthly in advance which are mainly paid for the rental charges of the bandwidth services of our own servers, the monthly rental charges are calculated with reference to the specified bandwidth capacity. For those we pay monthly, the charge is calculated with reference to the monthly ACU. If we are required to establish our own servers, the potential cost in establishing each of our own server will be approximately RMB26,000. In our experience, we are generally able to add additional servers as we require within a matter of several days.

We have exclusive access to the data and software on the servers. We monitor the operation of our server network 24 hours a day and seven days a week. We can access our server network in real time to track our concurrent online players, and to discover and fix problems in the operation of hardware and software on a timely basis.

Our server network is linked to our centralised billing system which, acts as a meter to deduct game points used by players from their accounts as they purchase virtual items. Our server network is also linked to our data backup system, which backs up data from all login system servers and game servers on a real-time basis.

CUSTOMERS

Our customers are individual players under our direct sales, pre-paid card distributors and cooperation partners.

Our largest customer for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 accounted for approximately 5.9%, 4.6% and 1.2% of our revenues during these periods, respectively. Our five largest customers for each of the two years ended 31 December 2006 and the six months ended 30 June 2007, accounted for approximately 15.4%, 11.1% and 4.7% of its revenues during those periods.

BUSINESS

As at the Latest Practicable Date, none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest customers.

SUPPLIERS

Our suppliers include primarily server and bandwidth leasing companies and game operation service providers. The services provided by the game operation service providers includes (i) provision of servers for online game operation; (ii) provision of network security; (iii) fixing of any technical problems; (iv) provision of technical and customer services; and (v) provision of promotional and advertising activities. We operate the online games and the game operation service providers offer technical and promotional services to us for the operation. The online game revenue is received through our established distribution and payment channels and we pay the game operation service providers the charges for the services provided.

The largest supplier for each of the two years ended 31 December 2006 is the same entity who provided server and bandwidth leasing services to us. The largest supplier for the six months ended 30 June 2007 is a game operation service provider.

Our largest supplier for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 accounted for approximately 51.6%, 45.7% and 35.7% of our purchases during those periods, respectively. Our five largest suppliers for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 accounted for approximately 97.5%, 94.9% and 97.4% of our purchases during those periods, respectively.

As at the Latest Practicable Date, none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers.

COMPETITION

The online game industry is highly competitive. We compete primarily with other online game operators that are based in the PRC. Currently, few, if any, international online game operators directly offer services in the PRC. We believe that domestic operators, including us, are likely to have a competitive advantage over international online game operators which lack operational experience and content localisation experience for the PRC market. We also face competition from international online game operators in our overseas market. The competition in the overseas market is very intensive as we are actually competing with online game developers and operators all over the world, in particular, those in Korea which have already built a strong reputation in the industry.

In addition, we compete for players against various offline games, including PC games, console games, arcade games and handheld games, as well as various other forms of traditional or online entertainment.

BUSINESS

We consider diversified product portfolio, high quality products, strong game development capabilities, extensive distribution network are crucial to the establishment of a successful online game developer or operator and that these factors pose a barrier to new entrants.

FACILITIES

Our three principal offices are located in Fuzhou, Fujian Province with an aggregate of approximately 3,153 sq.m. of office space under current leases that will expire in December 2007, March 2008 and June 2010, respectively. In addition, we have entered into a letter of intent with Fuzhou 851 to lease additional gross floor area of approximately 4,200 sq.m. in Fuzhou, Fujian Province for office purpose. Pursuant to that letter of intent, we are allowed to use the property without any consideration until the landlord obtains the building ownership certificate, upon which a formal tenancy agreement will be entered into between Fuzhou 851 and us. We also occupy an additional approximately 257.3 sq.m. of leased office space in Shanghai and approximately 111.76 sq.m. of leased office space in the USA. We believe that our existing facilities are adequate for our current requirements and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

INSURANCE

We maintain the social insurance for our employees in the PRC in accordance with the applicable laws of the PRC and requirements from the competent local authorities, of which the insurance premium is borne by us and the employees in a specific proportion regulated by the relevant PRC laws.

As an employer in California, NetDragon (USA) contributes its portion of the social security tax and medicare tax under the federal system of old-age, survivors, disability, and hospital insurance. NetDragon (USA) also pays unemployment tax under the relevant federal and state laws as required under the federal and state unemployment insurance systems. In addition, NetDragon (USA) provides health insurance benefits to all of its employees and all the premium for such insurance are paid by us.

The insurance industry in the PRC is still at an early stage of development. In particular, PRC insurance companies offer limited business insurance products. In addition, it is not compulsory for an online game developer and operator to maintain an insurance policy to cover losses relating to its business operation. Therefore, we have not yet taken out any insurance to cover our business operations in both the PRC and the overseas markets.

During the Active Business Pursuit Period, we have not experienced any insurance claims in relation to our business.

BUSINESS

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

Our intellectual property is an essential element of our business operations. We rely on copyright, trademark, trade secret and other intellectual property law, as well as non-competition, confidentiality and license agreements with our employees, suppliers, business partners and others to protect our intellectual property rights. Our employees are generally required to sign agreements acknowledging that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works.

The copyrights under the software products developed by us are required to be registered with the NCAC which are valid for a period of 50 years. In order to sell and operate the software products developed by us in the PRC, upon obtaining the copyrights registration as mentioned above, we are required to register the software products with the Fujian Provincial MII in compliance with the Administrative Measures on Software Products (軟件產品管理辦法), which are valid for a period of five years and renewable upon application to the relevant authority approximately four months prior to expiration of the software product registrations at the earliest. The renewal process typically lasts for approximately 45 days to 135 days, depending on the time of submission of application which are only formally accepted and processed by the relevant authority four times a year. Since none of our current computer software product registrations are going to expire until August 2008, we have not yet filed the applications for their renewal as at the Latest Practicable Date. If any of the copyrights of our software products cannot be renewed or applied and filed for any reasons, we will not be able to operate such software products in the PRC and we will not be able to enjoy the benefits offered to the registered software products by the relevant PRC authority. As at the Latest Practicable Date, we were the registered owner of the 12 copyrights of computer software products in the PRC.

Besides, we have 11 registered domain names, including our official website and domain names registered in connection with each of the games we offer. We generally renew our domain name registrations once every year and applications for their renewal are usually submitted approximately two weeks prior to their expiration. Under normal circumstances, the renewal process usually takes approximately three to five days. If any of our domain name registrations cannot be renewed for whatever reason, the domain name registrar may deregister the relevant domain name.

As at the Latest Practicable Date, we had duly registered all necessary copyrights for software products and domain names currently in use. As the registration renewal procedures for both domain names and copyrights of the computer software products are largely procedural, we believe that we would not encounter any problem or unnecessary delay during the registration renewal process and hence do not foresee any risk of non-registration upon expiry of their respective terms.

Details of our intellectual property rights are set out in the section headed “Further information about the business - Intellectual property” in Appendix V of this prospectus.

BUSINESS

AWARDS AND RECOGNITION

Over the past years, we have received various awards and recognition in respect of the superb quality and reputation of our products, among which include the following:

Awards	Date of award	Awarding institution/authority	Subsidiary/ Product
Recommended software products 2003 (2003年度推薦優秀軟件產品)	2003	China Software Industry Association (中國軟件行業協會)	NetDragon (Fujian) - Monster & Me
China Top Ten Game Developer in 2004 (2004 中國十佳遊戲開發商)	December 2004	CGPA and GAPP	TQ Digital
Award for Overseas Promotion of Chinese Games for 2004 (2004 中國遊戲海外拓展獎)	December 2004	CGPA and GAPP	TQ Digital
“Golden Plume Prize” for the Best Original Online Game of 2005 ChinaJoy Expo (2005 年度 ChinaJoy 展會優秀遊戲評選大賽 最佳原創網絡遊戲金翎獎)	October 2005	www.chinajoy.net	Conquer Online
Award for Overseas Promotion of Chinese Domestic Games for 2005 (2005 中國民族遊戲海外拓展獎)	October 2005	GAPP and MII	TQ Digital
International Software China 2006 - Gold Prize (中國國際軟件博覽會 — 金獎)	June 2006	Organising Committee of the China International Software Expo & Technology Symposium (中國國際軟件博覽會及技術研討會組委會)	TQ Digital - Conquer Online
Most Popular Free Online Game for 2006 (2006 最受歡迎免費網遊)	January 2007	QQ.com (騰訊網)	Eudemons Online
Most Popular Online Game for 2006 (2006 最受歡迎網絡遊戲)	January 2007	QQ.com (騰訊網)	Eudemons Online

BUSINESS

Awards	Date of award	Awarding institution/authority	Subsidiary/ Product
Most Popular MMORPG for 2006 (2006 最受歡迎 MMORPG)	January 2007	QQ.com (騰訊網)	Eudemons Online
Best New Online Game for 2006 (2006 最佳新銳網絡遊戲)	January 2007	QQ.com (騰訊網)	Eudemons Online
Most Anticipated Online Game for 2007 (2007 年最受期待網遊)	January 2007	QQ.com (騰訊網)	機戰 (Zero Online)
Award for Overseas Development of Chinese Domestic Games for 2006 (2006 年度中國民族遊戲海外拓展獎)	January 2007	GAPP and MII	TQ Digital
Top 10 Game Developers in China for 2006 (2006 年度中國十佳遊戲開發商)	January 2007	GAPP and MII	TQ Digital
Best Export Product Award for 2006 (2006 年度最佳出口產品獎)	January 2007	Shanghai Municipal Informatisation Commission (上海市信息化委員會), and Shanghai Municipal Press Publication Bureau (上海市新聞出版局)	Conquer Online
Best Originality Award for 2006 (2006 年度最佳原創作品獎)	January 2007	Shanghai Municipal Informatisation Commission (上海市信息化委員會), and Shanghai Municipal Press Publication Bureau (上海市新聞出版局)	Eudemons Online
Best Customer Service Provider for 2006 (2006 年最佳客服廠商)	January 2007	QQ.com	TQ Digital

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

RELATED PARTY TRANSACTIONS

During the Active Business Pursuit Period, we entered into certain related party transactions, details of which are set out in Note 23 headed “Related party transactions” to the accountants’ report set out in Appendix I to this prospectus.

NON-COMPETITION UNDERTAKING

In preparation for the Listing, each of DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Cristionna Holdings Limited, Growing Up Capital Inc., Liu Dejian, Zheng Hui, Liu Luyuan, Chen Hongzhan and Wu Jialiang has given an undertaking on 15 October 2007 to the effect that for so long as the Company remains listed on the GEM and/or any of its/his associates (as defined in the GEM Listing Rules) and/or any companies controlled by it/him are beneficially interested, directly or indirectly, whether individually or taken together, in 30 per cent. or more of the issued share capital of the Company, each of them shall not engage or otherwise be involved in any business which competes or is likely to compete, either directly or indirectly, with any of our business.

Fuzhou Tianliang is a company established on 19 April 2006 in the PRC with limited liability and a registered capital of RMB1,000,000 and has been carrying on the business of provision of computer system repair and maintenance services and after-sales services since its establishment. Upon its establishment in April 2006 and up to 30 June 2007 which was the starting period of its business, we were the sole customer of Fuzhou Tianliang. The Directors understand from Fuzhou Tianliang that it is seeking for new customers for its future development. Fuzhou Tianliang is engaged in the provision of computer system repair and maintenance services and after-sales services to TQ Digital and NetDragon (Fujian) while none of our group members is engaging in the provision of such services for revenue. Since early 2006, the demand for customer service and technical support surged significantly ever with the remarkable growth in our ACU and PCU upon our launching of Eudemons Online. In order to allow us to focus on the development and operation of online games instead of diverting our attention on dealing with the day-to-day technical support and customer-related issues, we decided to outsource the provision of computer system repair and maintenance and after-sales services to a third party. However, due to the relatively low quality of such services available in Fuzhou City, our Directors decided to outsource such services to Fuzhou Tianliang, which was then newly established for the provision of technical support and customer-related services in Fuzhou City by Zheng Hui, Chen Hongzhan and Wu Jialiang, who are specialised in this area. Moreover, due to our staff remuneration policy, we pay a higher compensation to each staff member in the Group than that payable by Fuzhou Tianliang to its staff members. The outsourcing of labour intensive tasks such as repair and maintenance services to Fuzhou Tianliang would therefore serve cost-saving purposes by means of effectively limiting the number of staff in the Group and equipment cost. Moreover, as Zheng Hui, Chen Hongzhan and Wu Jialiang are familiar with our operations, our Directors are of the view that the quality of the services provided by Fuzhou Tianliang can be assured. However, our Directors would also reserve the option to terminate such outsourcing arrangement with Fuzhou Tianliang and enter into a similar arrangement with an independent third party should Fuzhou Tianliang become unable to provide services which are up to our required standard. Due to the above reasons, the Directors had no intention to include Fuzhou Tianliang in the Group.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

We are of the view that the businesses carried on by Fuzhou Tianliang have not been and will not be in competition with our businesses. To ensure that Fuzhou Tianliang will not engage in any activities which are in competition with our businesses after the Listing, on 15 October 2007, Fuzhou Tianliang has given an undertaking that it will not and will procure that none of its associates (as defined in the GEM Listing Rules) will not become interested in any company or be engaged or otherwise involved in any business which competes or is likely to compete, directly or indirectly, with those carried on by us. Due to the difference in our business nature with that of Fuzhou Tianliang, Fuzhou Tianliang is not included in our Group.

In addition, each of the Directors has confirmed that he/she does not have any interest in a business which competes or may compete with our business nor do they have any conflicts of interests with us.

DISCONTINUED CONNECTED TRANSACTIONS

Lease agreement between TQ Digital and Fuzhou 851

On 1 July 2006, TQ Digital, being a member of the Group entered into the lease agreement with Fuzhou 851 (the “**TQ Digital Lease Agreement**”) pursuant to which Fuzhou 851 as lessor agreed to lease the premises with a total gross floor area of approximately 714 sq.m. consisting of (i) the conference room on the first floor; (ii) the second floor; (iii) certain offices on the third floor; and (iv) certain portion of the ancillary buildings of 851 Building (851大樓) located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou, Fujian, the PRC to TQ Digital as lessee for office and research purposes.

The term of the TQ Digital Lease Agreement is one year commenced from 1 July 2006 and ended on 30 June 2007. TQ Digital entered into the New Lease Agreement I (as defined below) regarding the same premises. As confirmed by Sallmanns (Far East) Limited, an independent property valuer, the rental charged by Fuzhou 851 under the agreement is fair and reasonable and consistent with the prevailing market rents for similar premises in similar location.

Fuzhou 851 is a sino-foreign equity joint venture enterprise established in the PRC, whose equity interest in the registered capital is owned as to approximately 46.26%, 26.87% and 26.87% by DJM Holding Ltd., being a substantial shareholder of the Company, Liu Dejian, being an executive Director and chairman of the Company, and Yang Zhenhua, being mother of Liu Dejian, respectively and Fuzhou 851 is therefore our connected person under the GEM Listing Rule.

Lease agreement between NetDragon (Fujian) and Fuzhou 851

On 1 July 2006, NetDragon (Fujian) entered into a lease agreement with Fuzhou 851 (the “**NetDragon (Fujian) Lease Agreement**”) pursuant to which Fuzhou 851 as lessor agreed to lease the premises with a total gross floor area of approximately 89 sq.m. consisting of (i) certain offices on the first floor; and (ii) certain portion of the ancillary building of 851 Building (851大樓) located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou, Fujian, the PRC to NetDragon (Fujian) as lessee for office and research purposes.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

The term of the NetDragon (Fujian) Lease Agreement is one year commencing from 1 July 2006 and ended on 30 June 2007. NetDragon (Fujian) entered into the New Lease Agreement II (as defined below) regarding the same premises. As confirmed by Sallmanns (Far East) Limited, an independent property valuer, the rental charged by Fuzhou 851 under the agreement is fair and reasonable and consistent with the prevailing market rents for similar premises in similar location.

Fuzhou 851 is a sino-foreign equity joint venture enterprise established in the PRC, whose equity interest in the registered capital is owned as to approximately 46.26%, 26.87% and 26.87% by DJM Holding Ltd., being a substantial shareholder of the Company, Liu Dejian, being an executive Director and chairman of the Company, and Yang Zhenhua, being mother of Liu Dejian, respectively, Fuzhou 851 is therefore our connected person under the GEM Listing Rules. On the other hand, through the arrangement of the Structure Contracts, the financial results of NetDragon (Fujian) will be consolidated with the Company as if it were a subsidiary of the Company. For the purpose of the GEM Listing Rules, NetDragon (Fujian) will be treated as if it were a subsidiary of the Company.

Sublease Agreement between NetDragon (USA) and Beso

On 1 January 2004, NetDragon (USA) entered into a Sublease Agreement (the “**Sublease Agreement**”) with Beso, whereby Beso as lessor agreed to sublease to NetDragon (USA) as lessee a premises with a total gross floor area of approximately 111.76 sq.m. The premises comprise a portion of the premises situated at 21660 E. Copley Dr., Suite #180, Diamond Bar, CA 91765, USA. NetDragon (USA) has been occupying the premises subleased under the Sublease Agreement for its business operations and for general office usage.

The term of the Sublease Agreement commenced on 1 January 2004 and is on a tenancy of month to month. As confirmed by Sallmanns (Far East) Limited, an independent property valuer, the rental charged and chargeable by Beso under the Sublease Agreement is fair and reasonable and consistent with the prevailing market rents for similar premises in similar location. The Sublease Agreement was terminated on 1 May 2007 upon NetDragon (USA) entering into a new lease agreement with the landlord of the same premises, being an Independent Third Party.

Beso is a corporation formed in the State of Kansas, USA, whose equity interest in its capital stock is owned by Yang Zhenhua, being the mother of Liu Dejian, an executive Director and chairman of the Company. Beso is therefore a connected person of the Group under the GEM Listing Rules.

Agreement for provision of repair and maintenance of computer system service and after-sales service (技術維護及遊戲售後服務外包合同) between TQ Digital and Fuzhou Tianliang

On 23 October 2006, TQ Digital has entered into an agreement for provision of repair and maintenance of computer system service and after-sales service with Fuzhou Tianliang (the “**TQ Service Agreement**”), pursuant to which Fuzhou Tianliang agreed to provide to TQ Digital computer system repair and maintenance service and after-sales service for online game customers on normal commercial terms which are no less favorable than those available from independent third parties. The TQ Service Agreement is replaced by the New Service Agreement (as defined below).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

Fuzhou Tianliang is a limited company established in the PRC, which is owned as to 30%, 30% and 40% by Chen Hongzhan, an executive Director, Zheng Hui, an executive Director and Wu Jialiang, one of our senior management, respectively and Fuzhou Tianliang is therefore our connected person under the GEM Listing Rules.

Agreement for provision of repair and maintenance of computer system service and after-sales service ((技術維護及遊戲售後服務外包合同)) between NetDragon (Fujian) and Fuzhou Tianliang

On 1 January 2007, NetDragon (Fujian) has entered into an agreement for provision of repair and maintenance of computer system service and after-sales service with Fuzhou Tianliang (the “**Fujian Service Agreement**”), pursuant to which Fuzhou Tianliang agreed to provide to NetDragon (Fujian) computer system repair and maintenance service and after-sales service for online game players on normal commercial terms which are no less favorable than those available from independent third parties. The Fujian Service Agreement is replaced by the New Service Agreement (as defined below).

Fuzhou Tianliang is a limited company established in the PRC, which is owned as to 30%, 30% and 40% by Chen Hongzhan, an executive Director, Zheng Hui, an executive Director and Wu Jialiang, one of our senior management, respectively and Fuzhou Tianliang is therefore our connected person under the GEM Listing Rules.

Contractual rights assignment agreement between Liu Dejian and TQ Digital

On 27 May 2007, Liu Dejian, our executive Director, had entered into a contractual rights assignment agreement with TQ Digital, pursuant to which TQ Digital had assigned its rights under an asset management agreement (the “**Asset Management Agreement**”) dated 12 December 2006 between TQ Digital and Guolun Holdings Limited (高能控股有限公司) to Liu Dejian at a consideration of RMB14.5 million, representing the amount of contribution of TQ Digital under the Asset Management Agreement. On 13 June 2007 and 13 August 2007, the amount of consideration was settled in full by Liu Dejian. Our Directors are of the view that the said contractual rights assignment agreement were on normal commercial terms, fair and reasonable and no less favorable than those provided to independent third parties.

Liu Dejian is our Director and therefore our connected person under the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Company which are expected to remain in effect following completion of the International Placing will, on and from the Listing Date, constitute connected transactions under Chapter 20 of the GEM Listing Rules. Details of these transactions are set out below.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

DE MINIMIS TRANSACTIONS

New Lease Agreements between the Group and Fuzhou 851

851 Building (851大樓)

On 30 May 2007, TQ Digital entered into a new lease agreement (the “**New Lease Agreement I**”) with Fuzhou 851 to replace the TQ Digital Lease Agreement, pursuant to which Fuzhou 851 as lessor agreed to lease to TQ Digital as lessee a premises with a total gross floor area of approximately 714 sq.m. consisting of (i) the conference room on the first floor; (ii) the second floor; (iii) certain offices on the third floor; and (iv) certain portions of the ancillary buildings of 851 Building (851大樓) located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou, Fujian, the PRC at an annual rental of RMB240,000 (equivalent to approximately HK\$244,898).

On 30 May 2007, NetDragon (Fujian) entered into a new lease agreement (the “**New Lease Agreement II**”) with Fuzhou 851 to replace the NetDragon (Fujian) Lease Agreement, pursuant to which Fuzhou 851 as lessor agreed to lease to NetDragon (Fujian) as lessee a premises with a total gross floor area of approximately 89 sq.m. consisting of (i) certain offices on the first floor; and (ii) certain portions of the ancillary buildings of 851 Building (851大樓) located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou, Fujian, the PRC at an annual rental of RMB30,000 (equivalent to approximately HK\$30,612).

Each of the New Lease Agreement I and New Lease Agreement II is for a term commenced from 1 July 2007 and ending on 30 June 2010. Should TQ Digital or NetDragon (Fujian) wish to extend the lease term, it shall enter into a new lease agreement with Fuzhou 851 in respect of the relevant premises with the same terms (save the new rent to be determined at the then market value) as the New Lease Agreement I or New Lease Agreement II (as applicable).

Prior to entering into the New Lease Agreement I and New Lease Agreement II, the Group has been occupying the relevant premises in 851 Building (851大樓) pursuant to the TQ Digital Lease Agreement and NetDragon (Fujian) Lease Agreement for its business operations and general office and research purposes. The lease terms under the TQ Digital Lease Agreement and NetDragon (Fujian) Lease Agreement had expired on 30 June 2007. The Directors are of the view that it is necessary and in the interests of the Group that the lease terms of the relevant premises in the 851 Building be renewed so as to maintain the continuity of the Group's operations. The Directors are also of the view that the lease of the relevant premises in 851 Building upon completion of the construction of 851 New Building would allow ample office space to facilitate the future expansion and growth of the Group's business.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

851 New Building (新 851大樓)

On 15 October 2007, NetDragon (Fujian) entered into a letter of intent with Fuzhou 851 pursuant to which Fuzhou 851 as lessor agreed to enter into a lease agreement (the “**New Lease Agreement III**”) for leasing to NetDragon (Fujian) as lessee a premises with a total gross floor area of approximately 4,200 sq.m. consisting of three floors of 851 New Building located next to 851 Building at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou, Fujian, the PRC at an annual rental of RMB1,814,000 (equivalent to approximately HK\$1,851,000). The New Lease Agreement III is to be entered into between NetDragon (Fujian) and Fuzhou 851 within five working days of the receipt of the building ownership certificates in respect of 851 New Building.

The New Lease Agreement III will be for a term of three years commencing from date of signing of the New Lease Agreement III. Should NetDragon (Fujian) wish to extend the lease term, it shall enter into a new lease agreement with Fuzhou 851 in respect of the same premises on the same terms (save the new rent to be determined at the then market value) as the New Lease Agreement III.

The Group intends to lease the 851 New Building from Fuzhou 851 for use as its main office building upon its construction is completed.

As confirmed by Sallmanns (Far East) Limited, an independent property valuer, the rentals charged or chargeable by Fuzhou 851 under the New Lease Agreement I, New Lease Agreement II and New Lease Agreement III are fair and reasonable and consistent with the prevailing market rents for similar premises in similar locations.

Fuzhou 851 is a sino-foreign equity joint venture enterprise established in the PRC, whose equity interest in its registered capital is owned as to approximately 46.26%, 26.87% and 26.87% by DJM Holding Ltd., a substantial shareholder, Liu Dejian, an executive Director and Yang Zhenhua, mother of Liu Dejian and Liu Luyuan, respectively. Fuzhou 851 is therefore our connected person under the GEM Listing Rules. As the arrangement under the Structure Contracts allows the financial results of NetDragon (Fujian) to be consolidated into those of the Group as if it were a subsidiary of our Company, NetDragon (Fujian) will also be treated as part of our Group for the purpose of the GEM Listing Rules.

We, including the independent non-executive Directors, are of the view that the New Lease Agreement I, New Lease Agreement II and New Lease Agreement III had been entered into on normal commercial terms, were fair and reasonable and in the interests of our Company and the Shareholders as a whole. The transactions under the New Lease Agreement I, New Lease Agreement II and New Lease Agreement III are liable to be aggregated pursuant to Rule 20.25 of the GEM Listing Rules. The aggregated annual rentals under the New Lease Agreement I, New Lease Agreement II and New Lease Agreement III amounted to RMB2,084,000 (equivalent to approximately HK\$2,127,000). Since the applicable percentage ratios under the GEM Listing Rules in relation to such aggregated annual rental payable by the Group to Fuzhou 851 on an annual basis have been and are expected to be less than

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

0.1%, which falls below the de minimis threshold as stated in Rule 20.33(3) of the GEM Listing Rules, the transactions under the New Lease Agreement I, New Lease Agreement II and New Lease Agreement III are thus exempt from the reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTION EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT SUBJECT TO REPORTING AND ANNOUNCEMENT REQUIREMENTS

Set out below are the terms of the continuing connected transaction which is subject to the reporting and announcement requirements under Rules 20.45 to 20.47 of the GEM Listing Rules (the **"Discloseable Continuing Connected Transaction"**).

Agreement for provision of repair and maintenance of computer system service and after-sales service (技術維護及遊戲售後服務外包合同) between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang

Terms of the New Service Agreement

On 15 October 2007, TQ Digital and NetDragon (Fujian) have entered into an agreement for provision of repair and maintenance of computer system service and after-sales service with Fuzhou Tianliang (the **"New Service Agreement"**), to replace the TQ Service Agreement and Fujian Service Agreement, pursuant to which, at the direction of TQ Digital, Fuzhou Tianliang agreed to provide to NetDragon (Fujian) computer system repair and maintenance service and after-sales service for online game customers on normal commercial terms which are no less favorable than those available from independent third parties. The term of the New Service Agreement is for two and a half years commenced from 1 July 2007 to 31 December 2009. The computer system repair and maintenance service mainly includes the routine system checking and maintenance and technical diagnosis and repair of system hardware, operating systems, database and application software which are vital to the operations of NetDragon (Fujian) as it ensures the smooth operation and upkeep of the computer systems on which the online games software are being run. On the other hand, the after-sales service mainly includes the provision of customer hotline services and assistance in responding to customers' enquiries and complaints in online forums and correspondences which are essential for customer management to enhance customer loyalty. We have changed the pricing basis with Fuzhou Tianliang from a per-job basis to one which was calculated with reference to the number of ACU which was a result of arms-length negotiations between Fuzhou Tianliang and us on normal commercial terms. Due to our staff remuneration policy we pay a higher compensation to each staff member in our Group than that payable by Fuzhou Tianliang to its staff members. The outsourcing of such labour intensive tasks to Fuzhou Tianliang would therefore serve cost-saving purposes by means of effectively limiting the number of our staff and equipment cost. Moreover, due to the relatively low quality of such services available in Fuzhou City, our Directors decided to outsource such services to Fuzhou Tianliang, which is owned and/or managed by Zheng Hui, Chen Hongzhan and Wu Jialiang, who are specialised in this area and familiar with our operations.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

Historical figures

TQ Digital and NetDragon (Fujian) have entered into separate agreements for provision of repair and maintenance of computer system service and after-sales service with Fuzhou Tianliang, i.e. the TQ Service Agreement dated 23 October 2006 and the Fujian Service Agreement dated 1 January 2007.

Fuzhou Tianliang has been providing to TQ Digital computer system repair and maintenance service and after-sales service for online game customers during the periods from 23 October 2006 to 31 December 2006, and the six months ended 30 June 2007, and the service fees charged for such periods were RMB718,268 and RMB132,823, respectively.

The service fees charged by Fuzhou Tianliang for providing to NetDragon (Fujian) computer system repair and maintenance service and after-sales service for the six months ended 30 June 2007 was RMB2,304,755. No service fee was charged by Fuzhou Tianliang from NetDragon (Fujian) prior to 1 January 2007 as no service agreement had been entered into between Fuzhou Tianliang and NetDragon (Fujian) prior to 1 January 2007.

Maximum annual service charges

Our Directors estimate that the annual value of the transactions under the New Service Agreement will not exceed the following caps (the “Annual Service Caps”) for each of the three years ending 31 December 2009^(Note):

	Year ending 31 December 2007 (RMB)	Year ending 31 December 2008 (RMB)	Year ending 31 December 2009 (RMB)
System Maintenance Fees	1,433,000	3,421,000	3,461,000
Service Charges	<u>1,433,000</u>	<u>3,421,000</u>	<u>3,461,000</u>
Total	<u>2,866,000</u>	<u>6,842,000</u>	<u>6,922,000</u>

Note:

The term of the New Service Agreement is for two and a half years commenced from 1 July 2007 to 31 December 2009.

The Annual Service Caps have been determined based on:

- (a) historical transaction amounts;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

- (b) internal estimates of the expected growth in the number of ACU for the six months ending 31 December 2007 and each of the two years ending 31 December 2009 by approximately 40%, 40% and 8% respectively, with reference to the expected increase in popularity of Eudemons Online and Zero Online, and the expected launch of Happiness Q, Piao Miao Online and Heroes of Might and Magic Online in late 2007, 2008 and 2008, respectively; and
- (c) the assumption that there is no significant increase in the market price of system maintenance fees and after-sales service charges in the coming three years.

We will closely monitor the transactions under the New Service Agreement pursuant to our internal control procedures which provide that, apart from strict compliance with the applicable disclosure requirements under the GEM Listing Rules, (a) a number of quotations from the independent third party suppliers must be obtained every quarter for reviewing and preparing the pricing policy for such transactions in the subsequent quarter; and (b) the pricing policy for such transactions for the subsequent quarter are subject to the review and approval by an independent non-executive director with appropriate expertise in Internet services industry.

Further, pursuant to the New Service Agreement, Fuzhou Tianliang has undertaken that it would not, and would procure that none of its associates would engage in any business which competes or is likely to compete, directly or indirectly, with those carried on by our Group.

GEM Listing Rules implications

Fuzhou Tianliang is a limited company established in the PRC, which is owned as to 30%, 30% and 40% by Chen Hongzhan, an executive Director, Zheng Hui, an executive Director and Wu Jialiang, one of our senior management, respectively and Fuzhou Tianliang is therefore our connected person under the GEM Listing Rules.

Since the applicable percentage ratios under the GEM Listing Rules in relation to amount of service fees payable by the Group to Fuzhou Tianliang under the New Service Agreement on an annual basis have been and are expected to be less than 2.5%, the transactions under the New Service Agreement are thus exempt from independent Shareholders' approval requirement but subject to reporting and announcement requirements under the GEM Listing Rules.

Waiver from the Stock Exchange in respect of the Discloseable Continuing Connected Transaction

We, including the independent non-executive Directors, consider that the Discloseable Continuing Connected Transaction has been entered into in the ordinary and usual course of business of our Group and is based on arm's length negotiation and on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole. All our Directors also confirm that each of the Annual Service Caps set out above is fair and reasonable.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

As the Discloseable Continuing Connected Transaction will continue following the Listing Date on a recurring basis, our Directors consider that strict compliance with the reporting and announcement requirements under the GEM Listing Rules would be unduly burdensome and impractical.

In respect of Rules 20.35(2) and 20.36(1) of the GEM Listing Rules, the maximum aggregate Annual Service Caps for the Discloseable Continuing Connected Transaction shall not exceed the applicable limits set out above.

We confirm that we will comply with Rules 20.35(1), 20.35(2), 20.36, 20.37, 20.38, 20.39 and 20.40 of the GEM Listing Rules, and will re-comply with the relevant rules of Chapter 20 of the GEM Listing Rules if any of the Annual Service Caps set out above are exceeded, when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

We have applied to the Stock Exchange for a waiver under Rule 20.42(3) of the GEM Listing Rules from strict compliance with the applicable announcement requirements under Chapter 20 of the GEM Listing Rules. The Stock Exchange has indicated that a waiver would be granted from strict compliance with the announcement requirements.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that : (i) the Discloseable Continuing Connected Transaction for which waiver is sought has been entered into in the ordinary and usual course of business of the Group on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole; and (ii) the Annual Service Caps for the Discloseable Continuing Connected Transaction are fair and reasonable.

STATEMENT OF BUSINESS OBJECTIVES

OVERALL BUSINESS OBJECTIVES AND STRATEGIES

Our goal is to further strengthen our position as a leading online game developer and operator in the PRC. We strive to capitalise on the new market opportunities created by the continuous growth in Internet users and improvement of Internet access in terms of availability, connection quality and speed in the PRC. Leveraging on our experience and expertise in the online game industry, we believe that we are well equipped to enhance our market position further in both the PRC and the overseas markets.

BUSINESS STRATEGIES

Our business strategies are set out as follow:

Further strengthen our core game development capabilities

In order to maintain our core competitive strength in game development, we intend to continue to devote significant resources to the game development. In particular, we will focus on strengthening our game development team and investing in our software and hardware. We have plans to systematically recruit experienced game development experts in order to strengthen our current teams of game designers, graphic staff and programmers. At the same time, we will reinforce our present corporate culture and our incentive scheme to retain our existing talents. We will also continue our training programmes to further upgrade the technical knowledge and skills of our existing game development team.

We will constantly seek appropriate supporting technologies to improve our development capabilities and efficiency. We focus on enhancing our game development software in order to equip our team with advanced technologies. In addition, we place particular emphasis on the development of game engines. For example, we have acquired the license to use Unreal 3, a 3D development engine. We will also make investments in hardware, including upgrading computers, purchasing specialised graphic design equipment and installing latest action imitation devices.

Further enhance our integrated operation model

Our goal is to integrate our ERP system, accounting system, customer information system, direct payment and distribution channels onto a single platform to improve the efficiency and profitability of our operations. We strive to fully integrate our customer information system and ERP system to give our management the tool to quickly identify players' demand and then to guide our development team to improve our games accordingly, such as designing tailored merchandise and novel features to satisfy the need of our high value customers. Our management can also utilise the sales results available on the same platform to promptly evaluate whether these new game designs and marketing events have achieved our intended goals.

STATEMENT OF BUSINESS OBJECTIVES

Enrich our product portfolio and extend our game life cycles

We will continue to develop new games that broaden our product portfolio to enable us to capture a wide variety of players. We have just launched Zero Online in April 2007. In addition, we have three games in the pipeline, all with different themes and gaming experience, with target launch dates from the second half of 2007 to early 2008. For 2008 and 2009, we plan to launch three new online games each year to serve the expanding online game industry.

We intend to continue to introduce, on an on-going basis, new features, contents, enriched visual effects, new editions and upgrades, with an objective to enhance the game experience of our players and to entice players to purchase virtual items, thus prolonging the life cycle of our games.

Expand our business through acquisition or cooperation with external parties

We are constantly seeking cooperation opportunities with international corporations in game development and operation. To license popular contents, such as movies, cartoons and PC games and to develop them into online games is becoming an increasingly important means of expanding our game portfolio. One of our major games under development, Heroes of Might and Magic Online, is developed based on licensed copyrights in a PC game owned by Ubisoft. We believe that we can offer these international corporations our expertise of developing online games and operating them in selected markets, and we intend to obtain exclusive licenses to a broader range of games.

In addition, we intend to acquire game development and operation companies in order to gain access to new customer base, strong product content and development talents. As at the Latest Practicable Date, we have not entered into any agreements or memorandum of understanding related to any acquisitions.

Strengthen our corporate image and promote our games

In addition to our traditional word of mouth marketing plan, we intend to increase targeted marketing and promotional activities. We plan to expand our engagement with professional marketing companies to promote our corporate image and online games in the PRC and the overseas markets. We will also continue to participate in various computer and games exhibitions, including E3 and ChinaJoy. By participating in these exhibitions, we are able to promote our corporate image and online games to the online game industry and the general public through media reports. To facilitate the launch of our new online games, we will develop a tailor made marketing programme for each of them, including engagement of spokesperson, intensive online advertisements and Internet cafe promotions. We also plan to develop a customised corporate and brand optimisation plan to promote us as one of the leading online game developers and operators.

STATEMENT OF BUSINESS OBJECTIVES

IMPLEMENTATION PLANS

In order to implement the above strategies, we have drawn up detailed implementation plans for the period from the Latest Practicable Date up to and including 31 December 2009. However, it should be noted that the Directors believe that the online game market is not static and is subject to market and technology change. The intention of setting out the implementation plans only reflects the Directors' present understandings to the market. Subject to this and the bases and assumptions described under the paragraph headed "Bases and Assumptions" below, we expect to implement the following implementation plans:

Period I

Scheduled business objectives and activities for the period from the Latest Practicable Date to 31 December 2007

Objectives	Activities	Use of proceeds (HK\$ million)
Further strengthen our core game development capabilities	<ul style="list-style-type: none">● We will recruit additional experienced game developers to cope with our game development.● We will enhance our incentive programme for our development team.● We will enhance our internal training programmes by inviting professionals to organise trainings and seminars.● We intend to purchase computers and game development software.● We will continue to standardise our game development process to improve efficiency.	2.0
Further enhance our integrated operation model	<ul style="list-style-type: none">● We will form a committee to oversee the study of integrating the customer information system, accounting system, distribution and payment system and ERP system.● We will recruit additional professionals with sophisticated experience to review and implement our integration project.● We intend to form a team to study how to further utilise customer information captured by our customer information system.	1.3

STATEMENT OF BUSINESS OBJECTIVES

Objectives	Activities	Use of proceeds (HK\$ million)
Enrich our product portfolio and extend our game life cycles	<ul style="list-style-type: none"> ● We will launch the Chinese version of Happiness Q. ● We will rollout upgraded versions of Eudemons Online and Zero Online. ● We will customise Zero Online into the English version. ● We will recruit additional experienced staff to operate our games. 	8.3
Expand our business through acquisition or cooperation with external parties	<ul style="list-style-type: none"> ● We will form a business development team to evaluate acquisition and merger opportunities. ● We intend to enter into negotiation with potential game development studios and game operators to evaluate cooperation or merger and acquisition possibilities. 	—
Strengthen our corporate image and promote our games	<ul style="list-style-type: none"> ● We will continue to engage marketing consultants to formulate marketing strategies to promote our corporate image and our games. ● We will continue to engage well-known Internet portals for corporate image advertisement and game promotion. ● We will engage a number of advertising agents to place advertisements in various media, including newspapers and magazines. 	25.6

STATEMENT OF BUSINESS OBJECTIVES

Period II

**Scheduled business objectives and activities for the period from
1 January 2008 to 30 June 2008**

Objectives	Activities	Use of proceeds (HK\$ million)
Further strengthen our core game development capabilities	<ul style="list-style-type: none"> ● We will recruit additional experienced game developers to cope with our game development. ● We intend to invite professionals to organise trainings and seminars for our internal training programmes. ● We intend to set up a 3D graphic centre in Shanghai to upgrade and enhance the features of our existing and newly developed online games and recruit fresh graduates from universities and experienced 3D graphic artists to enhance our artist team and to facilitate the development of our 3D technology in order to expand our online game portfolio. ● We will continue to upgrade our computers and game development software. ● We will continue to standardise our game development process to improve efficiency. 	29.4
Further enhance our integrated operation model	<ul style="list-style-type: none"> ● We will integrate our customer information system and ERP system ● Our team will use the study result on customer information system to form marketing strategies. 	1.5
Enrich our product portfolio and extend our game life cycles	<ul style="list-style-type: none"> ● We will launch the Chinese versions of Piao Miao Online and Heroes of Might and Magic Online. ● We will rollout upgraded versions of Eudemons Online, Zero Online and Happiness Q. ● We will customise Happiness Q and Piao Miao Online into the English version. ● We will customise Zero Online into other language versions. ● We will recruit additional experienced staff to operate our games. 	10.3

STATEMENT OF BUSINESS OBJECTIVES

Objectives	Activities	Use of proceeds (HK\$ million)
Expand our business through acquisition or cooperation with external parties	<ul style="list-style-type: none"> ● We intend to acquire PRC or overseas medium size game development studios and game operators specialising in MMORPGs. ● We intend to establish cooperation partnership with PRC or overseas medium to large size well-known Internet portals. ● We will evaluate other merger and acquisition opportunities that complement or benefit our business strategies. 	63.2
Strengthen our corporate image and promote our games	<ul style="list-style-type: none"> ● We will continue to engage marketing consultants to formulate marketing strategies to promote our corporate image and our games. ● We will continue the cooperation with well-known Internet portals for game promotion and corporate image advertisement. ● We will continue to participate in game industry events. ● We will engage a number of advertising agents to place advertisements in various media, including newspapers and magazines. 	27.4

STATEMENT OF BUSINESS OBJECTIVES

Period III

**Scheduled business objectives and activities for the period from
1 July 2008 to 31 December 2008**

Objectives	Activities	Use of proceeds (HK\$ million)
Further Strengthen our core game development capabilities	<ul style="list-style-type: none"> ● We will expand our development team for more game designers and graphic artists, to cope with our new game development. ● We intend to work closely with universities and game development academics by sponsoring competitions and offering scholarships for students. ● We will offer more training programmes and seminars to enhance our developers' skills. ● We will continue to upgrade our computers and game development software. 	8.4
Further enhance our integrated operation model	<ul style="list-style-type: none"> ● We will integrate our accounting system and distribution and payment system. ● We will test and fine-tune the integration of customer information system and ERP system and provide trainings on the integrated systems to our staff. 	1.3
Enrich our product portfolio and extend our game life cycles	<ul style="list-style-type: none"> ● We will launch two new online games. ● We will rollout upgraded versions of Conquer Online, Eudemons Online, Zero Online, Happiness Q, Piao Miao Online and Heroes of Might and Magic Online. ● We will customise Happiness Q, Piao Miao Online and Heroes of Might and Magic Online into different languages. ● We will recruit additional experienced staff to operate our games. 	11.3

STATEMENT OF BUSINESS OBJECTIVES

Objectives	Activities	Use of proceeds (HK\$ million)
Expand our business through acquisition or cooperation with external parties	<ul style="list-style-type: none"> ● We intend to acquire PRC or overseas medium size game development studios and game operators specialising in MMORPGs. ● We intend to establish cooperation partnership with PRC or overseas medium to large size well-known Internet portals. ● We will evaluate other merger and acquisition opportunities that complement or benefit our business strategies. 	83.7
Strengthen our corporate image and promote our games	<ul style="list-style-type: none"> ● We will continue to engage marketing consultants to formulate marketing strategies to promote our corporate image and our games. ● We will continue the cooperation with well-known Internet portals for game promotion and corporate image advertisement. ● We will continue to participate in game industry events. ● We will engage a number of advertising agents to place advertisements on various media, including newspapers and magazines. ● We will engage an international public relationship firm to promote our corporate image in the online game industry. 	29.9

STATEMENT OF BUSINESS OBJECTIVES

Period IV

**Scheduled business objectives and activities for the period from
1 January 2009 to 30 June 2009**

Objectives	Activities	Use of proceeds (HK\$ million)
Further strengthen our core game development capabilities	<ul style="list-style-type: none"> ● We will expand our development team, mainly game designers and graphic artists, to cope with our game development. ● We intend to work closely with universities and game development academics by sponsoring competitions and offering scholarships for students in the PRC and overseas. ● We will offer more training programmes and seminars to enhance our developers' skills. ● We will continue to upgrade our computers and game development software. ● We intend to set up different development centres in the PRC to cope with our expanding business. 	19.3
Further enhance our integrated operation model	<ul style="list-style-type: none"> ● We will integrate our accounting system and customer information system. ● We will test and fine-tune the integration of accounting system and distribution and payment system, and provide trainings on the integrated system to our staff. 	2.0
Enrich our product portfolio and extend our game life cycles	<ul style="list-style-type: none"> ● We will launch one new online game to the PRC market. ● We will rollout upgraded versions of our existing games. ● We will customise our existing games into different languages. ● We will recruit additional experienced staff to operate our games. 	12.1

STATEMENT OF BUSINESS OBJECTIVES

Objectives	Activities	Use of proceeds (HK\$ million)
Expand our business through acquisition or cooperation with external parties	<ul style="list-style-type: none"> ● We intend to acquire PRC or overseas medium size game development studios and game operators specialising in MMORPGs. ● We intend to establish cooperation partnership with PRC or overseas medium to large size well-known Internet portals. ● We will evaluate other merger and acquisition opportunities that complement or benefit our business strategies. 	83.7
Strengthen our corporate image and promote our games	<ul style="list-style-type: none"> ● We will continue to engage marketing consultants to formulate marketing strategies to promote our corporate image and our games. ● We will continue the cooperation with well-known Internet portals for game promotion and corporate image advertisement. ● We will continue to participate in game industry events. ● We will engage a number of advertising agents to place advertisements on various media, including newspapers and magazines. ● We will engage an international public relationship firm to promote our corporate image in the online game industry. 	28.1

STATEMENT OF BUSINESS OBJECTIVES

Period V

**Scheduled business objectives and activities for the period from
1 July 2009 to 31 December 2009**

Objectives	Activities	Use of proceeds (HK\$ million)
Further strengthen our core game development capabilities	<ul style="list-style-type: none"> ● We will expand our development team, mainly game designers and graphic artists, to cope with our game development. ● We intend to work closely with universities and game development academics by sponsoring competitions and offering scholarships for students in the PRC and overseas. ● We will offer more training programmes and seminars to enhance our developers' skills. ● We will continue to upgrade our computers and game development software. ● We intend to set up different development centres in the PRC to cope with our expanding business. 	15.9
Further enhance our operation model	<ul style="list-style-type: none"> ● We will integrate our accounting system and ERP system. ● We will test and fine-tune the integration of accounting system and customer information system, and provide trainings on the integrated system to our staff. 	3.9
Enrich our product portfolio and extend our game life cycles	<ul style="list-style-type: none"> ● We will launch two new games to the PRC market. ● We will rollout upgraded versions of our existing games. ● We will customise our existing games into different languages. ● We will recruit additional experienced staff to operate our games, especially for the overseas operation. 	18.0

STATEMENT OF BUSINESS OBJECTIVES

Objectives	Activities	Use of proceeds (HK\$ million)
Expand our business through acquisition or cooperation with external parties	<ul style="list-style-type: none"> ● We intend to acquire PRC or overseas medium size game development studios and game operators specialising in MMORPGs. ● We intend to establish cooperation partnership with PRC or overseas medium to large size well-known Internet portals. ● We will evaluate other merger and acquisition opportunities that complement or benefit our business strategies. 	451.7
Strengthen our corporate image and promote our games	<ul style="list-style-type: none"> ● We will continue to engage marketing consultants to formulate marketing strategies to promote our corporate image and our games. ● We will continue the cooperation with well-known Internet portals for game promotion and corporate image advertisement. ● We will continue to participate in game industry events. ● We will engage a number of advertising agents to place advertisements on various media, including newspapers and magazines. ● We will continue to engage an international public relationship firm to promote our corporate image in the online game industry. 	35.6

STATEMENT OF BUSINESS OBJECTIVES

REASONS OF THE INTERNATIONAL PLACING AND THE USE OF PROCEEDS

We believe that the Listing will enhance our profile and expand our capital base for our future growth and development. The net proceeds from the International Placing, after deducting related underwriting fees and expenses payable by us, and assuming a Placing Price of HK\$12.18 per Share (being the mid-point of the stated range of the Placing Price between HK\$11.18 and HK\$13.18 per Share), are estimated to amount to approximately HK\$1,082.1 million (equivalent to approximately RMB1,060.5 million). We currently intend to apply such net proceeds as follows:

- as to approximately HK\$75.0 million to further strengthen our core game development capabilities
- as to approximately HK\$10.0 million to further enhance our integrated operation model
- as to approximately HK\$60.0 million to enrich our product portfolio and extend our game life cycles
- as to approximately HK\$682.3 million to expand our business through acquisition or cooperation with external parties
- as to approximately HK\$146.6 million to strengthen our corporate image and promote our games
- the remaining net proceeds of approximately HK\$108.2 million for our general working capital

Further details on use of proceeds are set out in “- Implementation plans” of this prospectus.

As at the Latest Practicable Date, we have not yet identified any suitable target for acquisition or cooperation with external parties.

In the event that the Placing Price is fixed at HK\$11.18 or HK\$13.18 (being the respective lowest and highest points of the indicative range of the Placing Price as stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds of the International Placing are approximately HK\$990.4 million (equivalent to approximately RMB970.6 million) and HK\$1,173.9 million (equivalent to approximately RMB1,150.4 million), respectively after deduction of all underwriting fees and expenses paid and payable by us. We currently intend to apply the aforesaid net proceeds in the same manner and in the same proportion as shown above. We will not receive any of the proceeds from the sale of shares by the Selling Shareholders in the International Placing.

In the event that the Over-allotment Option is exercised in full and assuming the Placing Price is HK\$12.18 (the mid-point price of the indicative price range as indicated in this prospectus), the Company will receive additional net proceeds of approximately HK\$189.4 million. We intend to apply the additional net proceeds for expanding our business through acquisition or cooperation with external parties.

STATEMENT OF BUSINESS OBJECTIVES

In case that the net proceeds from the International Placing do not immediately apply for the aforesaid purposes, we currently intend that the amount be placed on short term deposits with licensed banks in Hong Kong and/or commercial banks in the PRC or other financial institutions.

SCHEDULE OF USE OF PROCEEDS

The following table sets out the schedule of use of proceeds for each of the 6-month period ending on 31 December 2009:

	Period I: Latest Practicable Date- 31 December 2007	Period II: 1 January 2008- 30 June 2008	Period III: 1 July 2008- 31 December 2008	Period IV: 1 January 2009- 30 June 2009	Period V: 1 July 2009- 31 December 2009	Sub-total by category
(in million HK\$)						
Further strengthen our core game development capabilities	2.0	29.4	8.4	19.3	15.9	75.0
Further enhance our integrated operation model	1.3	1.5	1.3	2.0	3.9	10.0
Enrich our product portfolio and extend our game life cycles	8.3	10.3	11.3	12.1	18.0	60.0
Expand our business through acquisition or cooperation with external parties	—	63.2	83.7	83.7	451.7	682.3
Strengthen our corporate image and promote our games	25.6	27.4	29.9	28.1	35.6	146.6
Working capital	<u>9.2</u>	<u>14.2</u>	<u>17.3</u>	<u>17.3</u>	<u>50.2</u>	<u>108.2</u>
Total	<u><u>46.4</u></u>	<u><u>146.0</u></u>	<u><u>151.9</u></u>	<u><u>162.5</u></u>	<u><u>575.3</u></u>	<u><u>1,082.1</u></u>

STATEMENT OF BUSINESS OBJECTIVES

BASES AND ASSUMPTIONS

In formulating our business strategies and implementation plans set out above, the Directors have made reference to their industry knowledge and experience, after evaluating the existing market conditions and growth potential for our online games, and based on a number of bases and assumptions. Although the Directors are of the view that such bases and assumptions are reasonable, there is no assurance that such bases and assumptions are correct and complete. In the event that any part of the implementation plans of the Company does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the proceeds from the International Placing to be received by the Company to other plans and/or new projects of the Company as long as the Directors consider it to be in the best interests of the Company and its Shareholders taken as a whole.

The following are the general bases and assumptions in relation to the implementation plans of the Company:

- there will be no material changes in the existing laws (whether in the PRC, the Cayman Islands or any other parts of the world), policies or industry or regulatory treatments relating to us, or in the political, economic or market conditions where we operate or market;
- there will be no material adverse changes taking place in the markets where we operate;
- there will be no material changes in the bases or rates of taxation applicable to us;
- there will be no material changes in the inflation rates, interest rates and exchange rates as prevailed in this prospectus as at the Latest Practicable Date;
- our game development will be on schedule and receive positive results;
- qualified personnel can be recruited and retained by us;
- our external financing can be readily available if and when needed;
- we will be able to obtain copyrights or licences, if necessary, for applications filed or to be filed in relation to our new products to be developed and launched during the period concerned;
- our online games will remain their popularity;

STATEMENT OF BUSINESS OBJECTIVES

- the International Placing will be completed in accordance with and as described in the section headed “Structure and conditions of the International Placing” in this prospectus; and
- we will not encounter any difficulty or disruption adversely affecting our operations or development plans in any way, including but not limited to:
 - disruption in services provided by suppliers;
 - serious industrial accidents, natural and political disasters, labour disputes, or litigation affecting our operation;
 - serious malfunction of our online games; and
 - any other force majeure event.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

The table below shows the information in respect of the members of the Board. Our Board comprises of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Each of the executive Directors has entered into a service contract with our Company for an initial term of three years commencing from 15 October 2007. Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with our Company for an initial term of three years commencing from 15 October 2007. For further information, please see the paragraph headed “Directors’ service contracts” under the section headed “Further information about the Directors, senior management and staff” in Appendix V to this prospectus.

Name	Age	Position
Liu Dejian	36	Executive Director
Liu Luyuan	33	Executive Director
Zheng Hui	38	Executive Director
Chen Hongzhan	34	Executive Director
Lin Dongliang	44	Non-executive Director
Zhu Xinkun	41	Non-executive Director
Chao Guowei, Charles	41	Independent non-executive Director
Lee Kwan Hung	42	Independent non-executive Director
Liu Sai Keung, Thomas	34	Independent non-executive Director

Executive Directors

Liu Dejian, aged 36, Chairman, Executive Director

Mr. Liu led us to become one of the PRC’s leading online game development companies. He is mainly responsible for our overall business strategic development and is the chief game designer of our game development team. Mr. Liu leads the game development team on the design of our online game products. He formulates our development policy and contributes to our growth as a competitive online game operator and developer. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. Prior to starting NetDragon (Fujian), Mr. Liu graduated with a Bachelor’s degree of Science in Chemistry from University of Kansas in the USA in 1995. He had been the vice-president of Beso from 1995 to 2005. He was also the vice-president of Fuzhou 851 from 1995 to 2000 and then promoted to be the president since 2001. Mr. Liu was first introduced to the technology of Internet during his study in the USA when he established a website for marketing of softwares. Anticipating that Internet would have a good development opportunity in the PRC, he founded NetDragon (Fujian) in 1999 when he came back to the PRC. He was appointed as vice-chairman of Fujian Province Association of Youth Entrepreneur

DIRECTORS, SENIOR MANAGEMENT AND STAFF

(福建省青年企業家協會) in April 2006. He also obtained Fujian Youth Entrepreneur Achievement Award (福建青年創業成就獎) in April 2005, Go Tone Fujian IT Industry Top 10 Outstanding Youth (全球通福建IT行業十大傑出青年) in May 2005 and Certificate of Fujian Entrepreneurial Tutor of the Chinese Youth Business International Programme (中國青年創業國際計劃福建創業導師證書) in June 2005. Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

Liu Luyuan, aged 33, Executive Director, Chief Executive Officer and one of the authorised representatives of the Company

Mr. Liu has over 10 years of experience in management and administration of technical institutions. Mr. Liu is mainly responsible for the overall management of the Group. Mr. Liu established the project management department and introduced the game project management system to ensure the standard of our games are in compliance with the standards. Mr. Liu is also responsible for the coordination with the governmental departments, media and the other external parties, under which he has built up our good reputation over years. Prior to joining us in 1999, Mr. Liu was the technical engineer of the information technology system project in Fujian Tumour Hospital (福建省腫瘤醫院) and the section officer of the mechanic management system project in Fujian Provincial Health Bureau (福建省衛生廳) from 1997 to 1999. Mr. Liu graduated with a Bachelor's degree in Electronic and Mechanical Engineering from the University of Electronic Science and Technology in Chengdu (成都電子科技大學) in 1997. Mr. Liu is a brother of Liu Dejian and a cousin of Zheng Hui.

Zheng Hui, aged 38, Executive Director

Mr. Zheng is our Director responsible for the overall management and administration of the Group. Mr. Zheng manages our administrative department and provides supporting resources to our operation. Mr. Zheng also coordinates, supervises and manages the duties of our various departments. Mr. Zheng has more than 20 years of management and administration experience. He is one of the Founding Shareholders and has been appointed as the senior executive manager in NetDragon (Fujian) since 1999. Mr. Zheng is also the legal representative and executive director of NetDragon (Shanghai) since 2004. Before founding NetDragon (Fujian) in 1999, Mr. Zheng worked in Beso and Fuzhou 851 from 1992 to 1999. He obtained a graduation certificate from the Continuing Education Institute of Beijing Normal University (北京師範大學持續教育學院) in 2000. Zheng Hui is the cousin of Liu Dejian and Liu Luyuan.

Chen Hongzhan, aged 34, Executive Director, Vice President, Chief Technology Officer

Mr. Chen is our chief technology officer. He worked as a game developer before joining the Group in 2001. The technical team led by Mr. Chen is responsible for the development procedure of our games and the technical supports to the production of our games. His technical supports and experience have raised the efficiency and quality of our game development department. He is an experienced online game developer with over 10 years of experience in the management of game development. He is mainly responsible for game development of our Company. Mr. Chen established his own online game studio from 1996 to 1998. Before joining us in 2001, Mr. Chen worked as the project manager in Chongqing Dazhong Software Company (重慶大眾軟件公司) from 1998 to 2000 and a director in the online game department in Beijing Beijibing Technology Development Company Limited (北京北極冰科技發展有限公司) from 2000 to 2001. Mr. Chen graduated with a Bachelor's degree in Mechanical-Electrical Integration from the Beijing University of Aeronautics and Astronautics (北京航天航空大學) in 1995.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Non-executive Directors

Lin Dongliang, aged 44, Non-executive Director

Mr. Lin graduated with a Master's degree in Engineering Management in 1988 from Tsinghua University. He joined IDG Technology Venture Investment Inc. as its vice president in 1994, and has served as a general partner of IDG Technology Venture Investment since 1999. He has over 12 years of experience in venture investment. He was nominated by the IDG Group to the Board and was appointed as a non-executive Director on 15 December 2004. Mr. Lin is also a non-executive director of Superdata Software Holdings Limited, a company previously listed on GEM from 6 June 2003 to 18 May 2006 upon its withdrawal, since July 2002.

Zhu Xinkun, aged 41, Non-executive Director

Mr. Zhu was appointed as a non-executive Director on 1 April 2007. He has over 10 years of experience in corporate, commercial banking and venture investment. Prior to joining NetDragon, Mr. Zhu served as a research fellow of Japanese studies in Shanghai Institute for International Studies (上海國際問題研究所) from 1988 to 1994, and was a representative in the Shanghai Representative Office of Nikko Securities Co., Ltd. from 1994 to 1999. He served as a manager in the corporate finance division of the Bank of Tokyo-Mitsubishi Shanghai Branch from 1999 to 2000 and a senior investment manager in Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司) from 2000 to 2001. Mr. Zhu joined Shanghai Venture Capital Management Co., Ltd. (上海創新投資管理有限公司) as a managing director since 2001. Mr. Zhu is also a non-executive director of Arasor International Limited, a company listed on the Australian Securities Exchange. Mr. Zhu has been nominated by Happy Sunshine Limited to the Board. Mr. Zhu graduated with a Bachelor's degree in law from Fudan University (復旦大學) in 1988, and a Master's degree in Economics from East China Normal University (華東師範大學) in 1999.

Independent non-executive Directors

Chao Guowei, Charles, aged 41, Independent non-executive Director

Mr. Chao was appointed as an independent non-executive Director on 15 October 2007. Mr. Chao is also the chairman of the audit committee, a member of our remuneration committee and nomination committee. Mr. Chao is the chief executive officer and director of SINA Corporation, a publicly listed company in Nasdaq. He has served as an experienced audit manager in PricewaterhouseCoopers LLP to provide audit and business consulting services for companies in Silicon Valley, California. He joined SINA Corporation as a vice president of finance in 1999 and has served as its co-chief operating officer, president and chief financial officer before his current position as the chief executive officer. He is a certified public accountant and a member of the American Institute of Certified Public Accountants. Mr. Chao is also an independent non-executive director of Focus Media Holding Limited, a publicly listed company in Nasdaq, and E-House (China) Holdings Limited, a company listed on the New York Stock Exchange. Mr. Chao graduated with a Master's degree in Professional Accounting from the University of Texas at Austin in 1993, a Master's degree in Journalism from the University of Oklahoma in 1991 and a Bachelor's degree in Journalism from the Fudan University in 1988.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Lee Kwan Hung, aged 42, Independent non-executive Director

Mr. Lee was appointed an independent non-executive Director on 15 October 2007. He is a partner of Woo, Kwan, Lee & Lo and the chief representative of Woo, Kwan, Lee & Lo's Beijing Office. Mr. Lee received his LL.B (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr. Lee is currently a non-executive director of Mirabell International Holdings Limited and GST Holdings Limited and an independent non-executive director of GZI REIT Asset Management Limited (being the manager of GZI Real Estate Investment Trust) and Embry Holdings Limited, the shares of these companies are listed on the Stock Exchange. Besides, Mr. Lee had been an independent non-executive director of Magician Industries (Holdings) Limited from 1 February 2005 to 23 April 2005 and China Mining Resources Group Limited (formerly known as Innomaxx Biotechnology Group Limited) from 31 May 2005 to 7 February 2007, the shares of these companies are listed on the Stock Exchange. Mr. Lee is also a member of Advisory Committee of School of Professional Education and Executive Development of The Hong Kong Polytechnic University and a founding member of the Hong Kong Professionals and Senior Executives Association. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

Liu Sai Keung, Thomas, aged 34, Independent non-executive Director

Mr. Liu is the managing director of strategic investments of Group M China. He was appointed as an independent non-executive Director in 15 October 2007. Mr. Liu is also the chairman of our nomination committee, a member of our audit committee and remuneration committee. He graduated with a MBA degree from The Anderson School at the University of California, Los Angeles, and a Bachelor's degree in Business Administration and a Master's degree in Finance from The Chinese University of Hong Kong in 1995 and 1999, respectively. He worked in Swire Pacific Limited from 1995 to 1999 and left as the marketing manager of its motor division. Prior to joining Group M China in 2007, he served as a director in the Beijing office of Tom Online Limited, and a manager in the business development department of Tom Group Limited from 2003 to 2004. He has also served as an associate in the Investment Banking division of the New York office of Lehman Brothers Inc. and as a vice-president of Star Group China.

SENIOR MANAGEMENT

Wu Chak Man, aged 35, Vice President, Chief Financial Officer, General Manager of NetDragon (Shanghai)

After joining us in January 2004, Mr. Wu has been responsible for sales and marketing in the PRC, the overseas business development and the operations in the USA. Mr. Wu has contributed to the success of our online games in the overseas market. He is currently responsible for our corporate finance and financial management matters. Mr. Wu graduated with a Bachelor's degree in Economics from the University of California, Berkeley in 1994, and a Master's degree in business administration from Duke University in 2004. He has over 10 years of experience in business and management experience. He was the vice-president in the marketing of Beso from 1995 to 1999. From 2000 to 2002, he was the Chief Operating Officer of Octant Communications Inc.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Wu Jialiang, aged 30, Vice President, Director of TQ Digital and NetDragon (Fujian)

He graduated with a Bachelor's degree in Applied Mathematics from the University of Fuzhou (福州大學) in 1999. He has over eight years of experience in system management, server operation and anti-hacking. After joining us in 1999, he is responsible for the maintenance of game servers to ensure the timely application and implementation of advanced network technology. Mr. Wu has been the responsible officer in our technical department, value-added business department and VIP management centre.

Qualified accountant and company secretary

Tam Hon Shan, Celia, aged 35, Financial Controller, company secretary, qualified accountant and one of the authorised representatives of the Company

Ms. Tam joined us in April 2007 and is responsible for the financial and accounting management and secretarial affairs of the Company. She graduated with a Bachelor's degree in business accounting from the University of Lincolnshire and Humberside in 2000. She is a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. She has over 10 years of experience in accounting and finance field.

COMPLIANCE OFFICER

Liu Luyuan, Compliance Officer

Mr. Liu's role includes advising on and assisting the Board in implementing procedures to ensure that we comply with the GEM Listing Rules and other relevant laws and regulations applicable.

Audit committee

We established our audit committee on 15 October 2007 which has adopted written terms of reference in compliance with the Code of Corporate Governance Practice set out in Appendix 15 to the GEM Listing Rules. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

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.

Remuneration committee

We established a remuneration committee on 15 October 2007 which considers and recommends to our board of Directors the remuneration and other benefits paid by us to our Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

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

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Nomination committee

We established a nomination committee on 15 October 2007 which considers and recommends to our board of Directors suitably qualified persons to become our Directors and is responsible for reviewing the structure, size and composition of our board of Directors on a regular basis.

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

DIRECTORS' REMUNERATION

Each of the executive Directors has entered into a service contract with the Company and each of the non-executive and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 15 October 2007 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term unless and until terminated in accordance with the terms of the service contract or by either party thereto giving to the other not less than three months' prior written notice. Each of the executive Directors will receive a salary which is subject to annual review at the discretion of the Board.

The total basic salary and benefits-in-kind received by the Directors for the two years ended 31 December 2006 and the six months ended 30 June 2007 were approximately RMB678,000 (equivalent to approximately HK\$692,000), RMB1,287,000 (equivalent to approximately HK\$1,313,000) and RMB1,096,000 (equivalent to approximately HK\$1,118,000), respectively. Each of the Directors has entered into a service contract or appointment letter with us for a term of three years commenced from 15 October 2007. The following sets out the estimated total basic salary and benefits-in-kind payable to each of the Directors under the respective service contract or appointment letter (as applicable) for the year ending 31 December 2008:

Director	Annual remuneration RMB
Liu Dejian	1,459,000
Liu Luyuan	546,000
Zheng Hui	157,560
Chen Hongzhan	499,200
Lin Dongliang	—
Zhu Xinkun	—
Chao Guowei, Charles	180,000
Lee Kwan Hung	240,000
Liu Sai Keung, Thomas	—

The salary payable to the each of the Directors may, subject to Shareholders' approval in general meeting, be revised by the Board each year as a result of which the above rates may or may not be increased but, in any event, any increase shall not exceed 25% of the annual salary paid to the Director in the previous year.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Each of the executive Directors may also be entitled to a bonus payment in such amount as shall be determined by the Board in its absolute discretion provided that the aggregate sum of such bonus payments in any financial year shall, unless the Board shall determine otherwise, not exceed 1% of the audited consolidated net profit of the Company after taxation but before extraordinary items in the relevant financial year.

Pursuant to the arrangements currently in place, it is expected that an aggregate amount of approximately RMB2,326,000 (equivalent to approximately HK\$2,373,000) will be paid to the Directors as remuneration for the year ending 31 December 2007.

Details of the terms of the Directors' service contracts and appointment letters are set out in the section headed "Further information about the Directors, senior management and staff" in Appendix V to this prospectus.

STAFF

As at 30 June 2007, we had a total of 527 employees. The breakdown of the number of our staff by their respective function is as follows:

Function	The Group (excluding NetDragon (Fujian) and NetDragon (Shanghai))	NetDragon (Fujian) and NetDragon (Shanghai)	Total
Game development	305	4	309
Game operation and marketing	40	65	105
Accounting, finance and general administration	87	26	<u>113</u>
Total			<u><u>527</u></u>

To attract and retain our human resources, we generally adopt the following strategies:-

- we provide competitive compensation package and offer share option to our employees;
- we have established an incentive program for key staff to share the profit of our operation;
- we provide various internal training programs for different level and function of employees;
- we provide a recreation centre and create a friendly working environment for our employees; and
- we offer scholarship for talented candidates to study in the PRC and overseas.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF RELATIONS

We confirm that we maintain good relations with our staff and have not encountered any major difficulties in our recruitment and retention of staff. There were no interruption to our operations due to labour disputes in the past.

SHARE OPTION SCHEME

The Company conditionally adopted the Share Option Scheme on 15 October 2007. A summary of the principal terms of the Share Option Scheme is set out in Appendix V to this prospectus.

RETIREMENT BENEFIT SCHEMES

All our employees in Hong Kong have joined a mandatory provident fund scheme (“MPF Scheme”). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance.

With respect to social security benefits, the Group’s employees participate in employee social security plans, namely medical (including maternity), housing, unemployment insurance, and retirement (collectively, “Social Insurance Funds”). These Social Insurance Funds are organised and administered by the Fuzhou government authorities and Shanghai government authorities. Except for the welfare benefits provided by these Social Insurance Funds, the Group has no other material commitments to employees. The Group is required to contribute to these Social Insurance Funds based on percentages of the total salary of employees.

INITIAL MANAGEMENT SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

INITIAL MANAGEMENT SHAREHOLDERS

Immediately upon completion of the International Placing and the Capitalisation Issue, but without taking into account (i) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme and the Over-allotment Option; or (ii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates as set out in the section headed “Statutory and general information - Further information about the Company - Written resolutions of all the Shareholders passed on 15 October 2007” in Appendix V to this prospectus, the following person and entities are considered to be the Initial Management Shareholders for the purpose of the GEM Listing Rules and therefore subject to the following restrictions on disposal:

Name	Date on which interest in the Group was first acquired	Number of Shares held immediately before completion of the International Placing and the Capitalisation Issue	Approximate percentage of shareholding immediately before completion of the International Placing and the Capitalisation Issue (%)	Number of Shares held immediately after completion of the International Placing and the Capitalisation Issue	Approximate percentage of shareholding immediately after completion of the International Placing and the Capitalisation Issue (%)	Approximate total cost of investment HK\$	Approximate cost of investment per 1,000,000 Shares HK\$	Moratorium period within the meaning of the GEM Listing Rules (as from the Listing Date)
DJM Holding Ltd. (Note 1)	30 March 2004	18,740,260	42.17	183,402,600	33.96	1,430,540	7,800	12 months
Liu Dejian (Note 1)	25 May 1999	N/A	40.23	N/A	32.40	10,292,788	58,827	12 months
Zheng Hui (Notes 1 & 2)	25 May 1999	N/A	10.33	N/A	8.14	1,388,514	31,604	12 months
Fitter Property Inc. (Note 2)	1 March 2007	3,729,872	8.39	35,498,720	6.57	276,890	7,800	12 months
Richmedia Holdings Limited (Note 3)	15 December 2004	2,684,480	6.04	26,344,800	4.88	205,489	7,800	12 months
Liu Luyuan (Note 3)	25 May 1999	N/A	6.04	N/A	4.88	519,530	19,720	12 months
Eagle World International Inc. (Note 4)	21 June 2007	3,371,292	7.59	33,712,920	6.24	262,961	7,800	12 months
Flowson Company Limited (Note 4)	21 June 2007	N/A	7.59	N/A	6.24	262,961	7,800	12 months
Cristionna Holdings Limited (Note 5)	30 March 2004	1,400,000	3.15	13,000,000	2.41	101,400	7,800	12 months
Chen Hongzhan (Note 5)	30 March 2004	N/A	3.12	N/A	2.39	100,386	7,800	12 months
Liu Ming (Note 5)	25 May 1999	N/A	0.03	N/A	0.02	1,014	7,800	6 months
Wu Chak Man (Note 6)	30 March 2004	240,000	0.54	1,900,000	0.35	14,820	7,800	6 months
Growing Up Capital Inc. (Note 7)	21 June 2007	223,400	0.50	1,434,000	0.27	11,185	7,800	6 months

INITIAL MANAGEMENT SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

Name	Date on which interest in the Group was first acquired	International Placing and the Capitalisation Issue	Approximate Number of Shares held immediately before completion of the	Approximate percentage of shareholding immediately before completion of the	Number of Shares held immediately after completion of the	Approximate percentage of shareholding immediately after completion of the	Approximate total cost of investment per 1,000,000 Shares HK\$	Moratorium period within the meaning of the GEM Listing Rules (as from the Listing Date)
			International Placing and the Capitalisation Issue (%)	International Placing and the Capitalisation Issue (%)	International Placing and the Capitalisation Issue (%)	International Placing and the Capitalisation Issue (%)		
Wu Jialiang (Note 7)	21 June 2007	N/A	0.50	N/A	0.27	11,185	7,800	6 months
IDG Group (Note 8)	30 January 2004	7,833,332	17.63	78,333,320	14.51	56,270,500	718,347	12 months
Happy Sunshine Limited (Note 9)	10 January 2007	2,000,000	4.50	20,000,000	3.70	32,370,000	1,618,500	12 months
Chee Swee Fu (Note 9)	10 January 2007	N/A	4.50	N/A	3.70	32,370,000	1,618,500	12 months

Notes:

- DJM Holding Ltd. is an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and is owned as to approximately 95.4% and 4.6%, respectively, by each of Liu Dejian (brother of Liu Luyuan and Liu Ming) and Zheng Hui, both being executive Directors. All of DJM Holding Ltd., Liu Dejian and Zheng Hui are regarded as Initial Management Shareholders under the GEM Listing Rules.
- Fitter Property Inc. is an investment holding company incorporated on 13 April 2006 in the BVI with limited liability and is owned as to 100% by Zheng Hui, an executive Director. Both Fitter Property Inc. and Zheng Hui are regarded as Initial Management Shareholders under the GEM Listing Rules.
- Richmedia Holdings Limited is an investment holding company incorporated on 10 May 2004 in the BVI with limited liability and is owned as to 100% by Liu Luyuan, an executive Director (brother of Liu Dejian and Liu Ming). Both Richmedia Holdings Limited and Liu Luyuan are regarded as Initial Management Shareholders under the GEM Listing Rules.
- Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and is owned as to 100% by Flowson Company Limited, an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and owned as to 100% by Zheng Hui. Zheng Hui owns the voting rights in respect of the shares in Flowson Company Limited. Flowson Company Limited holds its indirect interest in the Shares as trustee for the benefit of the employees of the Group under a discretionary trust. Under the terms of the trust, Zheng Hui has power to direct the exercise of the voting rights in respect of the trust's shares in Eagle World International Inc. and indirectly in respect of the Shares held by Eagle World International Inc. Both Eagle World International Inc. and Flowson Company Limited are regarded as Initial Management Shareholders under the GEM Listing Rules.
- Cristionna Holdings Limited is an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and is owned as to 99% by Chen Hongzhan, an executive Director, and as to 1% by Liu Ming, a director of NetDragon (USA) (brother of Liu Dejian and Liu Luyuan). All of Cristionna Holdings Limited, Chen Hongzhan and Liu Ming are regarded as Initial Management Shareholders under the GEM Listing Rules.
- Wu Chak Man is a member of our senior management and an Initial Management Shareholder under the GEM Listing Rules.

INITIAL MANAGEMENT SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

7. Growing Up Capital Inc. is an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and is owned as to 100% by Wu Jialiang, a member of our senior management. Both Growing Up Capital Inc. and Wu Jialiang are regarded as Initial Management Shareholders under the GEM Listing Rules.
8. The IDG Group has nominated Lin Dongliang, a non-executive Director, to the Board and is regarded as an Initial Management Shareholder under the GEM Listing Rules. Please See “Shareholding and Corporate Structure - Information on the investors” for details of the IDG Group.
9. Happy Sunshine Limited has nominated Zhu Xinkun, a non-executive Director, to the Board. Happy Sunshine Limited is an investment holding company incorporated on 15 April 2005 in the BVI with limited liability and is owned as to 100% by Chee Swee Fu. Both Happy Sunshine Limited and Chee Swee Fu are regarded as Initial Management Shareholders under the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

The Directors confirm that, immediately following the completion of the International Placing and the Capitalisation Issue but without taking into account (i) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme and the Over-allotment Option; or (ii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate referred to in paragraph 1E headed “Written resolutions of all the Shareholders passed on 15 October 2007” in Appendix V to this prospectus, the persons (other than the Directors or chief executive of the Company) with interests or short positions in the Shares or underlying Shares 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 would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are 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 will be as follows:

Name	Name of Group member	Capacity and nature of interests	Number of shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	183,402,600(L)	33.96%
Fitter Property Inc.	The Company	Beneficial owner	35,498,720(L)	6.57%
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	33,712,920(L)	6.24%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	33,712,920(L)	6.24%
IDG Group	The Company	Beneficial owner	78,333,320(L)	14.51%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

INITIAL MANAGEMENT SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

Notes:

1. The letter “L” denotes the shareholder’s interest in the share capital of the relevant member of the Group.
2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and is owned as to 100% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.24% of the issued share capital of the Company through its shareholding in Eagle World International Inc.

SIGNIFICANT SHAREHOLDERS

Save as disclosed above in the paragraphs headed “Substantial Shareholders” and “Initial Management Shareholders”, the Directors confirm that, immediately following completion of the International Placing and the Capitalisation Issue, but without taking into account (i) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme and the Over-allotment Option; or (ii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates referred to in paragraph 1E headed “Written resolutions of all the Shareholders passed on 15 October 2007” in Appendix V to this prospectus, no person (or group of persons who together) will be entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company.

UNDERTAKINGS

Each of the Initial Management Shareholders (other than Wu Chak Man, Liu Ming, Growing Up Capital Inc. and Wu Jialiang) has undertaken to the Company, Bear Stearns (for itself and on behalf of the Underwriters) and the Stock Exchange that for a period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date.

- (a) save as provided in Rule 13.18 of the GEM Listing Rules, he/it shall not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his/its direct or indirect interest in his/its relevant securities (as defined in rule 13.15(4) of the GEM Listing Rules) (the “Relevant Securities”) or otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of his/its interests;
- (b) he/it shall place in escrow, with an escrow agent acceptable to the Stock Exchange, his/its Relevant Securities on terms acceptable to the Stock Exchange;
- (c) in the event that he/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant period set out above, he/it will inform the Company and Bear Stearns immediately thereafter, disclosing the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made; and

INITIAL MANAGEMENT SHAREHOLDERS, SUBSTANTIAL SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

- (d) having pledged or charged any of his/its interest in the Relevant Securities under sub-paragraph (c) above, he/it must inform the Company and Bear Stearns immediately in the event he/it becomes aware that the pledge(s) or charge(s) has/have disposed of or intend(s) to dispose of such interest and of the number of the Relevant Securities affected.

Each of the Other Investors, Wu Chak Man, Liu Ming, Growing Up Capital Inc. and Wu Jialiang has undertaken to the Company, Bear Stearns (for itself and on behalf of the Underwriters) and the Stock Exchange that for a period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 6 months from the Listing Date:

- (a) he/it shall place in escrow, with an escrow agent acceptable to the Stock Exchange, his/its Relevant Securities on terms acceptable to the Stock Exchange;
- (b) save as provided in Rule 13.18 of the GEM Listing Rules, he/it shall not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his/its direct or indirect interest in the Relevant Securities or otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of his/its interests;
- (c) in the event that he/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant period set out above, he/it must inform us and Bear Stearns immediately thereafter, disclosing the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made; and
- (d) having pledged or charged any of his/its interest in the Relevant Securities under sub-paragraph (c) above, he/it must inform the Company and Bear Stearns immediately in the event he/it becomes aware that the pledgee(s) or chargee(s) has/have disposed of or intend(s) to dispose of such interest and of the number of the Relevant Securities affected.

SHARE CAPITAL

The following is a description of the share capital of the Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the International Placing and the Capitalisation Issue:

		<i>US\$</i>
<i>Authorised share capital:</i>		
<u>1,000,000,000</u>	Shares	<u>10,000,000.0</u>
<i>Issued and to be issued, fully paid or credited as fully paid:</i>		
44,440,786	Shares in issue as at the date of this prospectus	444,407.9
399,967,074	Shares to be issued pursuant to the Capitalisation Issue	3,999,670.7
<u>95,600,000</u>	Shares to be issued pursuant to the International Placing	<u>956,000.0</u>
<u>540,007,860</u>	Shares	<u>5,400,078.6</u>

Notes:

1. Assumptions

This table assumes that the International Placing and the Capitalisation Issue become unconditional and listing occurs. It takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme or under the general mandates granted to the Directors described in notes 4 and 5 below.

The minimum level of public float to be maintained by the Company after the listing of the Shares on GEM is (i) 25% of the issued share capital of us in the hands of the public if the market capitalisation does not exceed HK\$4,000 million; or (ii) the higher of (a) the percentage that would result in the market value of the securities to be in public hands equal to HK\$1,000 million (determined at the time of listing); and (b) 20% if the market capitalisation is over HK\$4,000 million of its share capital in issue from time to time.

2. Ranking

The Placing Shares will rank *pari passu* in all respects with all other Shares on the date of issue and allotment of such Shares in issue and, in particular, will rank in full for all dividends and other distributions declared, made or paid after the date of this prospectus except for entitlement under the Capitalisation Issue.

3. Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in section headed “Share Option Scheme” in Appendix V to this prospectus.

4. General mandate to issue new Shares

We have been conditionally granted a general unconditional mandate to issue, allot and deal with Shares with a total nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal amount of share capital of the Company in issue immediately following completion of the International Placing and the Capitalisation Issue; and
- (ii) the aggregate nominal amount of share capital of the Company repurchased by the Company (if any) pursuant to the repurchase mandate referred to in note 5 below.

SHARE CAPITAL

We may, in addition to Shares which they are authorised to issue under the mandate, allot, issue and deal with Shares under a rights issue, scrip dividend scheme or other similar arrangements or Shares to be issued upon the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (i) at the conclusion of the Company's next annual general meeting; or
- (ii) at the expiration of the period within which the Company is required by the Articles to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of its shareholders in general meeting;

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Written resolutions of all the Shareholders passed on 15 October 2007" in Appendix V to this prospectus.

5. General mandate to repurchase Shares

We have been conditionally granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the International Placing and the Capitalisation Issue.

This general mandate only relates to repurchases made on GEM, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in Appendix V to this prospectus.

This mandate will expire:

- (i) at the conclusion of the Company's next annual general meeting; or
- (ii) at the expiration of the period within which the Company is required by the Articles or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the its shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Written resolutions of all the Shareholders passed on 15 October 2007" in Appendix V to this prospectus.

6. Capitalisation Issue

Pursuant to the written resolutions of all the Shareholders passed on 15 October 2007, the Directors have been authorised, conditional on, amongst other matters, the share premium account of the Company being credited as a result of the International Placing, US\$3,999,670.7 of such amount be directed to be capitalised and applied in paying up in full at par 399,967,074 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 23 October 2007 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then shareholding in the Company.

FINANCIAL INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TRADING RECORD

Investors should read the following discussion and analysis in conjunction with our audited financial statements, including notes thereto, as set forth in Appendix I “Accountants’ report” to this prospectus. The financial statements have been prepared in accordance with HKFRS.

Overview

We are one of the leading online game developers and operators in the PRC as proven by the awards and recognition we and our online games have received. Our portfolio consists of a range of MMORPGs catering to various types of players. Our strong online game development capability enables us to create our own games and to upgrade our existing games in a timely and efficient manner. In addition, our proprietary customer information system tracks players’ behaviour and purchasing patterns to allow us to design more appealing game contents. By employing our player-driven development philosophy and our integrated operation model, we have been able to swiftly adapt to trends in the online game market, such as offering online games to players free of charge and then generating revenue through the sale of virtual items. With these strategies and capabilities, we believe we can effectively satisfy our customers’ demand and capture the market opportunities to further strengthen our position in the market.

Factors affecting our results of operations and financial condition

The major factors affecting our results of operations and financial condition include the following:

Growth of Internet penetration and online game market

Our results of operations and financial condition are affected by the growth of Internet penetration and online game market. The worldwide as well as the PRC rate of Internet penetration has continuously increased over the past few years and is expected to further increase in the future. As an online game developer and operator based in the PRC, the majority of our revenue is generated from online game operations in the PRC. The growth of Internet penetration in the PRC has facilitated the growth of online game market in the PRC as more and more people could reach online games through the Internet with easier access and lower cost. We believe that the continuing development of Internet value-added services, reduction in Internet access costs, lower PC prices and growth in broadband access will drive the increase in Internet usage as well as the growth of online game market. For more information, please refer to “Industry overview” in this prospectus.

Popularity of our online games

Our financial results are affected by the popularity of our online games.

Popular games attract a large number of customers and generate significant revenue for the game developers and operators. Therefore, the ability to develop and operate popular games is essential to our commercial success.

FINANCIAL INFORMATION

Revenue generation

We operate our online games under the FTP model. Players can play the games without initial costs, which enables us to quickly attract new players to experience our online games. Our revenue is generated by selling virtual items to be used in the games. Our ability to design virtual items and enhance game features to attract players to increase spending is critical to our revenue generation. However, this model is a recent phenomenon and our future revenues and profits are substantially dependent upon the continued acceptance and use of the FTP model, and our ability to stimulate players' spending on virtual items.

Development capability

In order to maintain our long-term financial and operational success, we must continuously develop new games that are attractive to players, frequently upgrade our existing games to retain players, and constantly enhance the technical and artistic features of our games to meet players' preferences. The success of our games largely depends on our ability to anticipate and respond to the ever changing user demands. Developing games requires substantial investments prior to their launch and needs significant commitments of future resources to sustain their growth.

Technological change

As an online game developer and operator, our financial results and operations in the future are affected by rapid technological change. Advances in game development softwares enhance our game development capability as well as the novelty and complexity of online games. It enables us to offer a wider range of online games and attract more players. However, the introduction of new technologies may require us to upgrade our hardwares and softwares to remain competitive in the industry.

Foreign exchange fluctuation

We offer online games in various language versions, including English, French and Spanish. Our multi-language approach helps generate revenue from the non-Chinese language market of approximately RMB41.6 million, representing approximately 34.1% of our total revenue for the year ended 31 December 2006. Our financial statements are prepared in Renminbi, while a portion of the revenue and expenses are denominated in foreign currencies. It is possible that the value of the Renminbi may fluctuate in value against other currencies. Our results of operations and financial condition may be affected by changes in the exchange rates of the Renminbi against other currencies in which our revenue and expenses are denominated. For more information, please refer to the paragraph headed "Fluctuations in the exchange rate of currencies may adversely affect our business" set out under the section headed "Risk factors" in this prospectus.

Basis of presentation

Our financial information has been prepared as a combination of business under common control. Our financial information presents our results of operations as if we had been in existence in current form as at 1 January 2005. Although we are not the equity holder of NetDragon (Fujian), we ultimately and effectively control the financial and operating activities of NetDragon (Fujian) through a

FINANCIAL INFORMATION

Management Committee. The Management Committee is established in accordance with the Structure Contracts, which were entered into by TQ Digital, NetDragon (Fujian) and the equity holders of NetDragon (Fujian) to oversee the business and operations of NetDragon (Fujian). We are able to control the Management Committee through the mechanism mentioned in the Structure Contracts. In addition, TQ Digital is entitled to substantially all of the operating profit generated by NetDragon (Fujian). NetDragon (Fujian) is in essence controlled by TQ Digital and accordingly, we regard NetDragon (Fujian) as our subsidiary, notwithstanding the lack of equity ownership. As NetDragon (Shanghai) is a subsidiary of NetDragon (Fujian), NetDragon (Shanghai) is also regarded as our subsidiary. As we, NetDragon (BVI), TQ Digital, NetDragon (USA), NetDragon (HK), NetDragon (Fujian) and NetDragon (Shanghai) were ultimately controlled by the same group of parties before and after the formation of the Group, the financial information is thereby prepared using the principles of merger accounting and presents our combined results, combined changes in equity, combined cash flows and combined financial positions as if the current group structure had been in existence on 1 January 2005, the beginning of the earliest Active Business Pursuit Period presented.

Critical accounting policies and estimates

We prepare financial statements in accordance with HKFRS, which requires us to adopt accounting policies and make estimates and assumptions that our management believes are appropriate in the circumstances for purposes of giving a true and fair view of our results and financial condition. However, different policies, estimates and assumptions in critical areas could lead to materially different results. We continually evaluate these estimates based on our own experience, knowledge and assessment of current business and other conditions, our expectations based on available information and other reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

(i) Merger accounting

We prepare our financial information using merger accounting. In determining the appropriate accounting method for preparing the Group's financial statement, we have assessed if the formation of the Group is a business combination involving entities under common control and whether such control is transitory.

(ii) Online game revenue recognition

In general, we recognise online game revenue based on the actual consumption of the game points. Under the FTP model, the relevant online games are free-to-play but game players can purchase virtual items with game points to enhance their experience in the online games. To acquire game points, game users can credit their game accounts through direct sales channel such as online payment systems or purchase of pre-paid cards. Online game revenue is recognised when the game points are utilised by game players to purchase virtual items.

FINANCIAL INFORMATION

We account for the amounts received in respect of unactivated pre-paid cards as well as the amounts received in respect of unutilised game points as deferred income in our consolidated balance sheets. The unutilised game points are valid to be used without a definite period. Our pre-paid cards are sold through third party sales distributors and our own distribution network in the PRC. For pre-paid cards which are sold but not yet activated by the ultimate players, the relevant amount received is recognised as deferred income.

As to the unutilised game points at period end, we have estimated the average sales value of the unutilised game points in arriving at the relevant amount of deferred income at that period end. In determining the amount of average sales value of the unutilised game points, we consider the discount rate applicable to each of the distribution and payment channels as discounts given to them are varied. In general, more than half of the revenue generated is attributable to the channel of direct sales via online payment systems and discount is not given in respect of this channel. The rest of the revenue is generated via the channels which are given discounts ranging from 15% to 55% in general. We also consider the mix of income received via the channels of direct sales and pre-paid cards sales through distributors. In a year when more income is received from the channel of direct online payment systems where discount is not given, we tend to use a lower average discount rate in determining the amount of deferred income for that year and vice versa. Having considered these factors, we determine an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at period end. The average sale value of each game point is then determined by factoring the average discount rate to the face value of the game points. If the actual sales value of the unutilised game points is greater than our estimated sales value, the amount of deferred income recognised in the consolidated balance sheets should be larger and the amount of online game revenue recognised in the consolidated income statements should be smaller correspondingly. On the contrary, if the actual sales value of the unutilised game points is smaller than our estimated sales value, the amount of deferred income recognised in the consolidated balance sheets should be smaller and the amount of online game revenue recognised in the consolidated income statements should be larger correspondingly.

Our existing system is able to capture the information necessary in determining the deferred revenue which includes income received from different distribution and payment channels in a given period, the number of game points consumed in a given period and the number of unutilised game points at period end. With reference to the actual sale value of game points sold via different distribution and payment channels in a given period of time, we are able to estimate the average discount rate in a given period and then to determine the amount of deferred income at the period end.

As a result of the above-mentioned factors, our online game revenue and deferred income during the Actual Business Pursuit Period are fairly stated despite the estimates and assumptions underlying the online game revenue recognition policy.

(iii) **Development costs**

We generally recognise development expenditures as expenses as they are incurred. Costs on development project are capitalised and recognised as intangible assets only when we can demonstrate

FINANCIAL INFORMATION

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) our intention to complete and our ability to use or sell the asset; (iii) how the asset will generate future economic benefits; (iv) the availability of technical and financial resources to complete; and (v) the ability to measure reliably the expenditure during the development.

Determining the level of development costs that warrant capitalisation requires significant management judgement and assumptions regarding the expected future cash flow of the assets, discount rates to be applied and the expected period of benefits. We have expensed all our development costs to date. We will only capitalise our development costs when our management is satisfied that the above conditions for capitalisation are met through sufficiently reliable estimates and judgement, and the reasonableness of which can be demonstrated objectively.

(iv) Useful lives of property, plant and equipment

Our property, plant and equipment primarily comprise servers, computers, vehicles and other office equipment. We depreciate these assets using the straight-line method over the estimated useful lives of the assets, taking into account the assets' estimated residual values. We estimate the useful lives based on our management's knowledge on the useful lives of similar assets in the market, and taking into account anticipated technological or other changes. On this basis, we have estimated the useful lives of our servers, computers, vehicles and office equipment to be five years. We review the estimated useful lives and residual values of assets, and adjust them if appropriate, at each balance sheet date.

If technological innovations are to occur more rapidly than anticipated, we may shorten the useful lives or lower the residual value assigned to these assets, which will result in increased depreciation expense in future periods.

(v) Impairment of receivables

Trade and other receivables are booked initially at fair value and subsequently measured at amortised cost less any impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of a debtor, probability that a debtor will enter bankruptcy, and default or delinquency in payment are considered indicators that the trade receivable is impaired. When a receivable is determined uncollectible, it is written off against the allowance account for receivables and the amount of the loss is recognised in the consolidated income statement as part of administrative expenses. We review the provision for impairment, and adjust it if appropriate, at each balance sheet date after conducting aging analysis of the receivables and reviewing credit history of the debtors.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The table below sets out a summary of our audited consolidated financial results during the Active Business Pursuit Period. For more detailed information, please refer to the accountants' report in Appendix I to this prospectus.

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(unaudited)</i>	
Revenue - turnover	35,119	122,061	26,111	261,749
Cost of revenue	<u>(4,669)</u>	<u>(11,179)</u>	<u>(3,253)</u>	<u>(14,665)</u>
Gross profit	30,450	110,882	22,858	247,084
Other revenue and gains	4,950	5,673	1,715	1,330
Selling and marketing expenses	(25,450)	(13,838)	(5,531)	(30,345)
Administrative expenses	(16,906)	(22,960)	(9,199)	(19,418)
Development costs	(15,464)	(12,835)	(5,463)	(13,137)
Other operating expenses	<u>(8,501)</u>	<u>(15,377)</u>	<u>(5,660)</u>	<u>(13,248)</u>
Operating (loss)/profit	(30,921)	51,545	(1,280)	172,266
Loss on disposal of an associate	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>—</u>
(Loss)/Profit before income tax	(30,921)	51,543	(1,280)	172,266
Income tax credit/(expense)	<u>1,721</u>	<u>(8,558)</u>	<u>(1,500)</u>	<u>(18,179)</u>
(Loss)/Profit for the year/period	<u>(29,200)</u>	<u>42,985</u>	<u>(2,780)</u>	<u>154,087</u>
Attributable to				
Equity holders of the Company	(29,171)	42,856	(2,780)	153,839
Minority interests	<u>(29)</u>	<u>129</u>	<u>—</u>	<u>248</u>
	<u>(29,200)</u>	<u>42,985</u>	<u>(2,780)</u>	<u>154,087</u>

FINANCIAL INFORMATION

The table below sets out a summary of the percentage of certain of the financial results to our revenue-turnover:

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
Revenue - turnover	100.0%	100.0%	100.0%	100.0%
Cost of revenue	<u>(13.3)%</u>	<u>(9.2)%</u>	<u>(12.5)%</u>	<u>(5.6)%</u>
Gross profit	86.7%	90.8%	87.5%	94.4%
Other revenue and gains	14.1%	4.6%	6.6%	0.5%
Selling and marketing expenses	(72.5)%	(11.3)%	(21.2)%	(11.6)%
Administrative expenses	(48.1)%	(18.8)%	(35.2)%	(7.4)%
Development costs	(44.0)%	(10.5)%	(20.9)%	(5.0)%
Other operating expenses	<u>(24.2)%</u>	<u>(12.6)%</u>	<u>(21.7)%</u>	<u>(5.1)%</u>
Operating (loss)/profit	(88.0)%	42.2%	(4.9)%	65.8%
Loss on disposal of an associate	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/Profit before income tax	(88.0)%	42.2%	(4.9)%	65.8%
Income tax credit/(expense)	<u>4.9%</u>	<u>(7.0)%</u>	<u>(5.7)%</u>	<u>(6.9)%</u>
(Loss)/Profit for the year/period	<u>(83.1)%</u>	<u>35.2%</u>	<u>(10.6)%</u>	<u>58.9%</u>
Attributable to				
Equity holders of the Company	(83.0)%	35.1%	(10.6)%	58.8%
Minority interests	<u>(0.1)%</u>	<u>0.1%</u>	<u>—</u>	<u>0.1%</u>
	<u>(83.1)%</u>	<u>35.2%</u>	<u>(10.6)%</u>	<u>58.9%</u>

FINANCIAL INFORMATION

Six months ended 30 June 2007 compared with six months ended 30 June 2006

Revenue

Our revenue arising from principal activities for the six months ended 30 June 2007 was approximately RMB261.7 million, representing an increase of approximately 902.4% as compared to the same period in 2006. The table below sets out the breakdown of our revenue by game for the periods indicated:

	Six months ended 30 June		Six months ended 30 June	
	2006		2007	
		%		%
	<i>RMB'000</i>	<i>of total revenue</i>	<i>RMB'000</i>	<i>of total revenue</i>
Online games				
Eudemons Online	1,203	4.6	185,040	70.7
Conquer Online	24,126	92.4	61,873	23.6
Zero Online	—	—	14,417	5.5
Others	782	3.0	419	0.2
Total revenue	<u>26,111</u>	<u>100.0</u>	<u>261,749</u>	<u>100.0</u>

The increase of our total revenue was mainly due to the continuing popularity of Conquer Online, achieving a PCU and ACU of approximately 89,000 and 63,000, respectively for the six months ended 30 June 2007 whereas it recorded a PCU and ACU of approximately 66,000 and 47,000, respectively for the six months ended 30 June 2006, and the launches of Eudemons Online and Zero Online in March 2006 and late April 2007, respectively. Eudemons Online was launched in late March 2006, and did not generate revenue until April 2006 and achieved a PCU and ACU of approximately 496,000 and 243,000 for the six months ended 30 June 2007. Zero Online was launched in late April 2007 and achieved a PCU and ACU of approximately 53,000 and 21,000 from the date of its launch to 30 June 2007. Revenue derived from Eudemons Online accounted for approximately 70.7% of our revenue for the six months ended 30 June 2007. In addition, the revenue derived from Conquer Online increased by 156.5% to approximately RMB61.9 million for the six months ended 30 June 2007 from RMB24.1 million for the same period in 2006.

Cost of revenue

Our cost of revenue primarily consist of costs directly attributable to the provision of our services, which include fees paid to game operation service providers, server and bandwidth leasing expenses, depreciation of servers, transaction handling fees and other costs. These costs are recognised in the income statement as incurred or upon utilisation of the relevant services, as appropriate.

FINANCIAL INFORMATION

The following table shows the breakdown of our cost of revenue for the periods indicated:

	Six months ended	
	30 June	
	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Fees paid to game operation service providers	233	4,306
Server and bandwidth leasing expenses	1,634	5,576
Depreciation of servers	522	1,448
Transaction handling fees	864	2,962
Others	—	373
	<u>3,253</u>	<u>14,665</u>

Cost of revenue for the six months ended 30 June 2007 was approximately RMB14.7 million, representing an increase of approximately 350.8% from the same period in 2006. The increase in cost of revenue was mainly attributable to (i) the fee paid to game operation service providers, whereas we only started to pay such fees in the last quarter of 2006; (ii) increased server and bandwidth leasing expenses due to the increased number of servers we leased; and (iii) increased transaction handling fees as a result of the increased revenue.

The services provided by the game operation service providers, which are all Independent Third Parties, includes (i) provision of servers for online game operation; (ii) provision of network security; (iii) fixing of any technical problems; (iv) provision of technical and customer services; and (v) provision of promotional and advertising activities. The effective dates of the agreements entered into between the game operation service providers and us varied from May 2006 to January 2007, and accordingly, only a small amount of cost of revenue was recorded for the six months ended 30 June 2006.

The transaction handling fees are service fees charged by our online payment service providers for collecting money on our behalf.

Gross profit

As a result of the above-mentioned factors, our gross profit increased by approximately 981.0% to approximately RMB247.1 million for the six months ended 30 June 2007. Gross profit margin increased from approximately 87.5% for the six months ended 30 June 2006 to approximately 94.4% for the same period in 2007, which was mainly due to the increased player usage.

FINANCIAL INFORMATION

Other revenue and gains

Other revenue and gains for the six months ended 30 June 2007 decreased by approximately 22.4% to approximately RMB1.3 million compared with the same period in 2006. The decrease was mainly due to that (i) no fee for game development to third parties was generated for the six months ended 30 June 2007; (ii) the government grants received decreased in that period; (iii) we no longer carry out the business in generating advertising income in 2007; and (iv) there was no website transfer transaction in the six months ended 30 June 2007.

Government grants represent subsidies for hi-tech projects. As a hi-tech enterprise conducting hi-tech projects in relation to the development of online games, NetDragon (Fujian) and TQ Digital are eligible for such grants. These grants are non-recurring in nature and are given on project basis. The website transfer in 2006 is a one time transaction and is not expected to repeat in the future.

Selling and marketing expenses

Our selling and marketing expenses primarily consist of staff costs, advertising and promotion expenses and other selling and marketing expenses.

The following table shows the breakdown of selling and marketing expenses for the periods indicated:

	Six months ended	
	30 June	
	2006	2007
	RMB'000	RMB'000
Advertising and promotion	2,194	22,613
Staff costs	1,529	3,409
Others	1,808	4,323
	<u>5,531</u>	<u>30,345</u>

Selling and marketing expenses for the six months ended 30 June 2007 increased by approximately 448.6% to approximately RMB30.3 million as compared with the same period in 2006. The increase in the amount of selling and marketing expenses was mainly attributable to our increased advertising and promotion expenses for Eudemons Online and Zero Online, and the increased staff costs as we raised employee compensations. The advertising and promotion expenses for Eudemons Online and Zero Online included advertisements on various online platforms and Internet cafés. The proportion of selling and marketing expenses to the total revenue for each of the six months ended 30 June 2006 and 2007 was approximately 21.2% and 11.6%, respectively.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses consist primarily of staff costs, depreciation, travel and entertainment expenses and other administrative expenses.

The following table shows the breakdown of administrative expenses for the periods indicated:

	Six months ended	
	30 June	
	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	4,932	9,078
Depreciation	990	1,890
Travel and entertainment expenses	704	2,675
Others	<u>2,573</u>	<u>5,775</u>
	<u>9,199</u>	<u>19,418</u>

Administrative expenses increased by approximately 111.1% to approximately RMB19.4 million for the six months ended 30 June 2007 as a result of the continuous expansion of our online game business. The increase of our staff costs was due to the increase of compensation for employees. The increase in our travel and entertainment expenses and other administrative expenses for the six months ended 30 June 2007 were primarily driven by the significant increase of our business development needs. The proportion of administrative expenses to total revenue for each of the six months ended 30 June 2006 and 2007 was approximately 35.2% and 7.4%, respectively.

FINANCIAL INFORMATION

Development costs

The following table shows the breakdown of development costs for the year ended 30 June 2006 and 2007:

	Six months ended 30 June	
	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	5,362	12,943
Others	<u>101</u>	<u>194</u>
	<u><u>5,463</u></u>	<u><u>13,137</u></u>

Our development costs primarily consist of staff costs and other development-related expenses. The increase in our development costs was mainly due to the increase of compensation for our employees. The number of staff in our development team was 279 and 309 for each of the six months ended 30 June 2006 and 2007, respectively. We increased the compensation in order to provide a competitive and attractive increment in the basic salary and distribution of discretionary bonus due to the success of Eudemons Online and to further motivate employees.

Other operating expenses

Our other operating expenses consist primarily of business tax for intercompany transactions and professional fees related to the Listing.

The following table shows the breakdown of other operating expenses for the periods indicated:

	Six months ended 30 June	
	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Business tax (intercompany transactions)	445	6,609
Professional fees related to the Listing	4,057	6,359
Others	<u>1,158</u>	<u>280</u>
	<u><u>5,660</u></u>	<u><u>13,248</u></u>

FINANCIAL INFORMATION

Other operating expenses for the six months ended 30 June 2007 increased by approximately 134.1% to approximately RMB13.2 million as compared with the same period in 2006. The increase in other operating expenses was mainly attributable to the increase in business tax for intercompany transactions as a result of our revenue increase, and the increase in our professional fees relating to the Listing. We are required to pay business tax not only for intercompany transactions but for all online game revenue. However, the business tax included in “other operating expenses” is only related to intercompany transactions, and the business tax for online game revenue is deducted from the gross revenue directly. Business tax is neither costs of revenue, nor selling and marketing expenses, nor administrative expenses, nor development costs. Business tax is also not an income tax in nature. Accordingly, they are classified as “other operating expenses”. As required by the relevant accounting standard, professional fees not directly attributable to equity transaction including costs related to stock market listing are recognised as expenses in the period they incur.

Operating (loss)/profit

As a result of the above-mentioned factors, our profitability improved from an operating loss of approximately RMB1.3 million for the six months ended 30 June 2006 to an operating profit of approximately RMB172.3 million for the same period in 2007. The increase in operating income resulted from the increasing popularity of our online games and the fact that our revenue increased at a substantially higher rate than that of our operating expenses.

(Loss)/Profit before income tax

(Loss)/Profit before income tax for each of the six months ended 30 June 2006 and 2007 are approximately the same as the operating (loss)/profit for the same periods.

Income tax credit/(expense)

Despite the Group reported a loss before income tax amounted to RMB1.3 million for the six months ended 30 June 2006, the amount of income tax expense was RMB1.5 million for the period concerned. It was mainly due to NetDragon (USA) derived assessable income in the USA for the six months ended 30 June 2006 while NetDragon (BVI) and TQ Digital were loss making for the period concerned. Our income tax expense increased by 1,111.9% to RMB18.2 million for the six months ended 30 June 2007. The increase was primarily due to that we had profit before tax of RMB172.3 million for the six months of 2007 as compared with a loss before tax of RMB1.3 million for the same period in 2006.

(Loss)/Profit for the period

As a result of the overall effect from the above-mentioned factors, our profit for the six months ended 30 June 2007 turned around to approximately RMB154.1 million as compared with loss of approximately RMB2.8 million for the same period in 2006. The net profit margin for the six months ended 30 June 2007 was 58.9%.

FINANCIAL INFORMATION

Year ended 31 December 2006 compared with year ended 31 December 2005

Revenue

Our revenue arising from principal activities for the year ended 31 December 2006 was approximately RMB122.1 million, representing an increase of approximately 247.6% as compared to approximately RMB35.1 million for the year ended 31 December 2005. The table below sets out the breakdown of our online game revenue for the periods indicated:

	Year ended 31 December			
	2005		2006	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Online games				
Eudemons Online	—	—	69,489	56.9
Conquer Online	32,338	92.1	51,112	41.9
Others	<u>2,781</u>	<u>7.9</u>	<u>1,460</u>	<u>1.2</u>
Total revenue	<u><u>35,119</u></u>	<u><u>100.0</u></u>	<u><u>122,061</u></u>	<u><u>100.0</u></u>

The increase in our revenue for the year ended 31 December 2006 was mainly due to the popularity of Eudemons Online, which was launched in March 2006. Eudemons Online achieved a PCU and ACU of approximately 325,000 and 70,000, respectively for the year ended 31 December 2006. Revenue derived from Eudemons Online accounted for approximately 56.9% of our revenue for the year ended 31 December 2006. In addition, the 58.1% increase in revenue derived from Conquer Online added to the revenue growth for the year ended 31 December 2006. Conquer Online achieved a PCU and ACU of approximately 82,000 and 52,000, respectively for the year ended 31 December 2006 whereas it recorded a PCU and ACU of approximately 47,000 and 27,000, respectively for the year ended 31 December 2005. Revenue derived from Conquer Online accounted for approximately 92.1% and 41.9%, respectively, of our revenue for the year ended 31 December 2005 and 2006.

FINANCIAL INFORMATION

Cost of revenue

The following table shows the breakdown of our cost of revenue for the years ended 31 December 2005 and 2006:

	Year ended 31 December	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Fees paid to game operation service providers	—	2,521
Server and bandwidth leasing expenses	2,927	5,360
Depreciation of servers	1,008	1,088
Transaction handling fees	734	2,210
	<u>4,669</u>	<u>11,179</u>

Cost of revenue for the year ended 31 December 2006 was approximately RMB11.2 million, representing an increase of approximately 139.4% as compared to the year ended 31 December 2005. The increase in cost of revenue was mainly attributable to (i) fees paid to game operation service providers for the year ended 31 December 2006 pursuant to an agreement entered between us and the game operation service provider in relation to the operation of Eudemons Online and Conquer Online; (ii) increase in our server and bandwidth leasing expenses due to the increased number of servers we leased; and (iii) transaction handling fees primarily as a result of the increased revenue.

The services provided by the game operation service providers, which are all Independent Third Parties, includes (i) provision of servers for online game operation; (ii) provision of network security; (iii) fixing of any technical problems; (iv) provision of technical and customer services; and (v) provision of promotional and advertising activities. The effective dates of the agreements entered into between the game operation service providers and us varied from May 2006 to January 2007, and accordingly, no cost of revenue was recorded for the year ended 31 December 2005.

The transaction handling fees are service fees charged by our online payment service providers for collecting money on our behalf.

Gross profit

As a result of the above-mentioned factors, gross profit increased by approximately 264.1% to approximately RMB110.9 million in the year ended 31 December 2006. Gross profit margin increased from approximately 86.7% for the year ended 31 December 2005 to approximately 90.8% for the year ended 31 December 2006 mainly due to the increased player usage, which in turn led to higher consumption of our virtual items and brought higher revenue. As our cost of server leasing expense is charged per server unit rather than per online game player, higher gross profit was generated as a result.

FINANCIAL INFORMATION

Other revenue and gains

Other revenue and gains for the year ended 31 December 2006 increased by approximately 14.6% to approximately RMB5.7 million as compared with the year ended 31 December 2005. The increase in other revenue and gains was mainly attributable to gain on investments and increases in our interest income offset by a decrease in game development fee income for the year ended 31 December 2006. The game development fee income was generated from our development of an online game for Guangdong Digital Communications Network Company Limited (廣東數據通信網絡有限公司), an Independent Third Party.

Selling and marketing expenses

The following table shows the breakdown of selling and marketing expenses for the years ended 31 December 2005 and 31 December 2006:

	Year ended 31 December	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Advertising and promotion	10,425	6,204
Staff costs	6,290	3,279
Others	<u>8,735</u>	<u>4,355</u>
	<u>25,450</u>	<u>13,838</u>

Selling and marketing expenses for the year ended 31 December 2006 decreased by approximately 45.6% to approximately RMB13.8 million as compared with the year ended 31 December 2005. The decrease in selling and marketing expenses was mainly attributable to our effort to focus on the development and operation of MMORPGs for the year ended 31 December 2006 instead of spreading our resources in developing each of MMORPGs, casual games and online portal for the year ended 31 December 2005. As a result, advertising and promotion expenses and staff related costs on non-MMORPG business was discontinued in 2006. The number of staff relating to selling and marketing were 247 and 88 for each of the year ended 31 December 2005 and 2006, respectively. The proportions of selling and marketing expenses to the total revenue for the year ended 31 December 2005 and 2006 were approximately 72.5% and 11.3%, respectively.

FINANCIAL INFORMATION

Administrative expenses

The following table shows the breakdown of administrative expenses for the years ended 31 December 2005 and 2006:

	Year ended 31 December	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	8,560	11,362
Depreciation	1,509	2,636
Travel and entertainment expenses	529	2,885
Others	<u>6,308</u>	<u>6,077</u>
	<u>16,906</u>	<u>22,960</u>

Administrative expenses increased by approximately 35.8% to approximately RMB23.0 million for the year ended 31 December 2006. The increase of our staff costs was due to the increase of compensation for employees. The proportions of administrative expenses to total revenue for the year ended 31 December 2005 and 2006 were approximately 48.1% and 18.8%, respectively. We have increased the compensation for most of the staff, in particular the senior staff in administrative departments, for the year ended 2006. The staff costs of senior management under the administrative departments are classified as administrative expenses.

Development costs

The following table shows the breakdown of development costs for the years ended 31 December 2005 and 2006:

	Year ended 31 December	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	13,958	12,171
Others	<u>1,506</u>	<u>664</u>
	<u>15,464</u>	<u>12,835</u>

The decrease in staff costs related to development was primarily due to our effort to focus on the development of MMORPGs in 2006 instead of the diversified development directions in MMORPGs, casual games and online portals in the year ended 31 December 2005 offset by an increase in overall

FINANCIAL INFORMATION

compensation to our staff. Under our previous diversified development directions which commenced in early 2004, we believed that the result of such strategy was not satisfactory which was attributable to our loss for the year ended 31 December 2005. As such, we have decided to focus our resources on the development of MMORPGs since 2005.

Other operating expenses

The following table shows the breakdown of other operating expenses for the years ended 31 December 2005 and 2006:

	Year ended	
	31 December	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Business tax (intercompany transactions)	321	2,439
Professional fees related to the Listing	4,985	8,113
Write-off of and loss on property, plant and equipment	629	1,261
Others	<u>2,566</u>	<u>3,564</u>
	<u>8,501</u>	<u>15,377</u>

Other operating expenses for the year ended 31 December 2006 increased by approximately 80.9% to approximately RMB15.4 million as compared with the year ended 31 December 2005. The increase in other operating expenses was mainly attributable to an increase in business tax for intercompany transactions which was driven by our increase in revenue for the year ended 31 December 2006. We also recorded professional fees related to the Listing of about RMB8.1 million as the preliminary expenses for our preparation of the Listing for the year ended 31 December 2006. In addition, we disposed of the unutilised and outdated computers which accounted for the write-off and loss on disposal of property, plant and equipment.

Operating (loss)/profit

As a result of the above-mentioned factors, profitability was improved from an operating loss of approximately RMB30.9 million for the year ended 31 December 2005 to an operating profit of approximately RMB51.5 million for the year ended 31 December 2006. The increase in operating profit was attributable to an increase in gross profit by approximately 264.1%, as well as a decrease in selling and marketing expenses by approximately 45.6%. The improvement in operation for the year ended 31 December 2006 was resulted from the increasing popularity of our online games.

Loss on disposal of an associate

Loss on disposal of an associate is only incurred for the year ended 31 December 2006. Loss on disposal of an associate of approximately RMB2,000 was resulted from the dissolution of Fuzhou Yikairui Network & Infotech Company Limited (福州易凱瑞網絡信息技術有限公司) with consideration of approximately RMB428,000 on 4 August 2006. The dissolution of Fuzhou Yikairui Network & Infotech Company Limited (福州易凱瑞網絡信息技術有限公司) had been completed and there is no actual or contingent liability for the dissolution of that associate.

FINANCIAL INFORMATION

(Loss)/Profit before income tax

As a result of the above-mentioned factors, profit before income tax for the year ended 31 December 2006 increased to approximately RMB51.5 million as compared with the loss before income tax of approximately RMB30.9 million for the year ended 31 December 2005.

Income tax credit/(expense)

Income tax expense was RMB8.6 million for the year ended 31 December 2006. This increase was primarily due to a turnaround in profit before income tax for the year ended 31 December 2006 as compared with the loss before income tax for the year ended 31 December 2005.

(Loss)/Profit for the year

As a result of the overall effect from the above-mentioned factors, profit for the year ended 31 December 2006 turned around to approximately RMB43.0 million as compared with a loss of approximately RMB29.2 million for the year ended 31 December 2005. The net profit margin for the year ended 31 December 2006 was approximately 35.2%.

ANALYSIS FOR SELECTED BALANCE SHEET ITEMS

Debtor's turnover period

Debtor's turnover period is calculated by dividing the amount of trade receivables as at the respective period end and revenue for the relevant period times the number of days in the relevant period. We generally request debtors to pay in advance or within a credit period of 30 to 45 days. The credit periods granted to debtors in different distribution and payment channels vary based on their reputation. For each of the year ended 31 December 2005 and 2006 and the six months ended 30 June 2007, debtor's turnover period for us was approximately 12 days, 19 days and 16 days, respectively. The increase in debtor's turnover period in the year ended 31 December 2006 was primarily due to the increase in the revenue generated from distribution partners and telecommunication voice service and mobile SMS service providers with credit period ranging from 30 to 45 days we granted. The online game revenue generated from them for each of the years ended 31 December 2005 and 2006 were approximately RMB6.6 million and RMB23.0 million, respectively. The popularity and wide coverage of the distribution partners' platforms provide players more convenient channels to play our games. It leads to the substantial increase in the revenue generated from distribution partners. As to the increase in the revenue generated from telecommunication voice service and mobile SMS service providers, it was mainly attributable to the popularity of Eudemons Online and increase in revenue derived from Conquer Online during the year. The decrease in debtor's turnover period for the six months ended 30 June 2007 was due to the improvement of outstanding debt collection during the period. Due to the increase of debtor's turnover period in the year ended 31 December 2006, we negotiated with some of the online payment service providers and successfully shorten the credit period for less than 30 days during the six months period 30 June 2007. It was proved by the decrease

FINANCIAL INFORMATION

in the outstanding balances over 60 days for the year ended 31 December 2006 in comparing with the six months ended 30 June 2007. The outstanding balances over 60 days for the year ended 31 December 2006 and the six months ended 30 June 2007 were RMB403,000 and RMB381,000 respectively.

As of 31 December 2005 and 2006 and 30 June 2007, we had trade receivables amounted to approximately RMB1.1 million, RMB6.2 million and RMB22.7 million, respectively, representing approximately 3.2%, 5.2% and 8.8% of our current assets and approximately 1.9%, 4.2% and 7.6% of our total assets, respectively.

Creditor's turnover period

Our suppliers are mainly game operation service providers and online payment service providers. Normally, we settle their billing on an advanced or monthly basis. Creditor's turnover period is calculated by dividing the amount of trade payables as at the period end and cost of revenue for the relevant period times the number of days in the relevant period. For the year ended 31 December 2005 and 2006 and the six months ended 30 June 2007, creditor's turnover period for us was approximately 8 days, 3 days and 3 days, respectively.

Return on equity

Return on equity for the year ended 31 December 2006 and the six months ended 30 June 2007 was approximately 41.1% and 67.4%, respectively, as compared with that of a net loss for the year ended 31 December 2005 and the six months ended 30 June 2006.

Return on total assets

Return on total assets for the year ended 31 December 2006 and the six months ended 30 June 2007 was approximately 29.4% and 51.8%, respectively, as compared with that of a net loss for the year ended 31 December 2005 and the six months ended 30 June 2006.

Deferred income

As at 31 December 2005, 2006 and 30 June 2007, we had deferred income of approximately RMB2.4 million, RMB8.6 million and RMB11.9 million, respectively.

The amount of sales arising from unactivated pre-paid game cards are approximately RMB1.8 million, RMB1.1 million and RMB0.9 million for each of the two years ended 31 December 2006 and the six months ended 30 June 2007, respectively.

Cash and cash equivalents

As at 31 December 2005, 2006 and 30 June 2007, we had cash on hand and at bank of approximately RMB14.0 million, RMB60.8 million and RMB171.4 million, respectively. In addition, as at 31 December 2005, 2006 and 30 June 2007, we had cash deposited with an online payment service provider of approximately RMB1.3 million, RMB5.5 million and RMB35.0 million, all in the

FINANCIAL INFORMATION

form of U.S. dollars, respectively. Cash deposited with that online payment service provider can be readily withdrawn by us. The accounts maintained with this online payment service provider were held by the directors of NetDragon (USA) on our behalf for the exclusive use of accepting online payments from customers. We note that such online payment service provider did not offer business accounts to NetDragon (USA) at the time when NetDragon (USA) first commenced its business operation on such provider's platform. To accommodate that restriction, the directors of NetDragon (USA) decided to open personal accounts at that online payment service provider on trust for NetDragon (USA) to facilitate our business growth. As at the Latest Practicable Date, we have set up a corporate account at that online payment service provider which is owned by and under the name of NetDragon (USA). The personal accounts previously set up by the directors of the NetDragon (USA) are no longer used by NetDragon (USA). We further confirm that all the funds deposited with such online payment service provider, of approximately RMB35.0 million in the form of U.S. dollars, have been transferred from those personal accounts to our corporate account when we ceased to use those personal accounts.

Available-for-sale financial asset/Investment in trading securities

Our investment objective is to identify potential targets which can maximise the investment return within reasonable and prudent level of risk. In assessing a potential target for investment, we consider its relative competitive position in its market, revenues, profitability as well as size of operations. Once we have made an investment, we regularly review the performance of investment and would consider disposing of an investment if we believe this would be in our best interests. For instance, we would dispose of an investment if we consider that there is deterioration in the operational or financial performance of an investee.

In recent years, we have spent majority of our time and resources in operating, managing and developing our online game business and we plan to focus on these principal activities in the coming years. Accordingly, we have minimised our investment activity during the Active Business Pursuit Period and the percentage of investment in debt and equity securities to net assets has reduced from 21.5% as at 31 December 2005 to 4.6% as at 31 December 2006 and further reduced to 1.9% as at 30 June 2007. To reduce the risk associated to investment, we mainly invest in low risk market such as bond market.

Our available-for-sale financial asset as at the end of each of the Active Business Pursuit Period represents a 9.5% equity interest in Fujian Yang Zhenhua 851 Bio Science Co., Ltd (福建楊振華 851 生物科技股份有限公司), a PRC established entity which is principally engaged in processing of healthcare products. The entity is a related party because Liu Dejian and Zheng Hui, our Directors, are directors of the entity and Lin Yun, a beneficial owner of the Company, has equity interest in the entity. We intend to hold the investment for long-term in view of its investment potential. Despite the difference in business natures, we consider that the health food product market in the PRC is fast growing with potential investment value and accordingly, we have retained our investment in Fujian Yang Zhenhua 851 Bio Science Co., Ltd (福建楊振華 851 生物科技股份有限公司) since 2000. We currently have no intention to dispose the investment even though it is not our principal activity. Our unlisted debt securities represent bonds and certificate of deposits issued by US corporations with maturity period ranged from six months to 24 months in general. The balance of unlisted debt securities reduced from RMB4.6 million as at 31 December 2005 to RMB0.9 million as at 31 December 2006 and

FINANCIAL INFORMATION

RMB0.5 million as at 30 June 2007 as certain bonds and certificate of deposits were disposed or matured. As mentioned in the previous paragraphs, we plan to focus on our principal activities in respect of online game business and accordingly, we have no plan to further invest in debt securities after the maturity of the remaining bonds and certificate of deposits.

Deferred tax assets

At 31 December 2006, we had deferred tax asset of approximately RMB0.1 million (2005: RMB5.1 million) arising from tax losses. The decrease was mainly due to utilisation of tax losses by TQ Digital, NetDragon (Fujian) and NetDragon (Shanghai) during the year.

TAX

We operate in the PRC and the USA, and are subject to the PRC enterprise income tax and the US income tax.

Certain of our affiliates and subsidiaries enjoy preferential tax treatments, in the form of reduced tax rates and/or tax holidays, provided by the PRC government or its local authorities or bureaus. TQ Digital is a foreign-invested enterprise located in the high technology industrial development zone approved by the State Council. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) issued by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) on 29 March 1994, hi-tech enterprises in the high technology industrial development zone approved by the State Council are entitled to paying the income tax at the reduced tax rate of 15%. The qualification of hi-tech enterprises are subject to review once every two years. TQ Digital has been recognised as a high-tech enterprise on 29 July 2005 and 16 August 2007 and thus is entitled to a preferential enterprise income tax of 15%.

TQ Digital was recognised as a software enterprise on 25 December 2003. Pursuant to the Circular on the Tax Policies for Encouraging the Development of Software and Integrated Circuit Industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知) issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the General Administration of Customs (海關總署) on 22 September 2000, TQ Digital can enjoy tax benefits of tax exemption for two years and a reduction in tax payable for three succeeding years. It was exempted from paying the enterprise income tax between 2003 and 2004 and has been entitled to paying the enterprise income tax at the reduced tax rate of 7.5% from 2005 to 2007.

NetDragon (Fujian) continued to be recognised as a hi-tech enterprise on 9 November 2004 and 16 August 2007. As NetDragon (Fujian) is located in the state-level high technology industrial development zone, it was entitled to paying the enterprise income tax at the reduced tax rate of 15% between 2005 and 2006. NetDragon (Fujian) was suspended to be qualified as a hi-tech enterprise during the review in 2006 though it finally obtained the qualification on 16 August 2007. As such, we consider the tax rate of enterprise income tax applicable to NetDragon (Fujian) for the year ending 31 December 2007 is 15%.

NetDragon (Shanghai) currently pays the PRC enterprise income tax at the tax rate of 33%.

FINANCIAL INFORMATION

The Tenth National People's Congress enacted a new Enterprise Income Tax Law on 16 March 2007, which provides for a unified income tax rate of 25% to both domestic enterprises and foreign-invested enterprises. The new tax law will become effective on 1 January 2008. As a result, the tax rate for domestic enterprises will be reduced to 25% from the previous 33%, whereas the tax rate for foreign-invested enterprises that have enjoyed preferential tax treatment, such as TQ Digital, will be increased to 25% upon the expiration of their preferential tax treatment.

NetDragon (USA), as a U.S. corporation, is subject to U.S. federal income tax at graduated rates on its net income (i.e., gross income less allowable deductions) at graduated rates that are generally 34% but that may be as high as 35%. To the extent that NetDragon (USA) pays tax to government other than that of the United States or one of the fifty States or the District of Columbia, it may be entitled to claim a credit for such tax against its U.S. federal income tax liability.

NetDragon (USA) is also subject to California State income tax at a rate of 8.84% on its net income.

TQ Digital, in addition to engaging in the development of online games, has also been providing access to users of online game, Conquer Online, in English language since 1 January 2007 and access to users of other non-Chinese language games since 1 June 2007. The fees attributable to such operations are generally not subject to any US tax.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other capital requirements principally from cash provided by our operations and cash at hand, while raising the remainder of our capital requirements through advances from shareholders.

As of 31 December 2005 and 2006 and 30 June 2007, we had net current assets of RMB15.8 million, RMB77.3 million and RMB189.8 million, respectively. As of 31 August 2007, being the latest practicable date for the purpose of this statement, we had net current assets of RMB255.9 million. The current assets primarily comprised trade and other receivables, and cash and cash equivalents. The current liabilities primarily comprised trade and other payables, and income tax payable.

Included in other receivables as at 31 December 2006 was a balance of RMB14.5 million which was paid to a PRC entity, Guolun Holdings Limited (高能控股有限公司), an Independent Third Party, which provided us asset management services pursuant to an agreement signed in December 2006 (the "Asset Management Agreement"). In order to seek a higher return for our investors by capturing the fast growth of the PRC stock markets, we entered into the Asset Management Agreement with Guolun Holdings Limited (高能控股有限公司). Pursuant to the Asset Management Agreement, Guolun Holdings Limited (高能控股有限公司) would assist us to manage and invest a total amount of RMB14.5 million in the PRC stock market. We settled the payment of the RMB14.5 million under the Asset Management Agreement in December 2006. In view of the fluctuation of the stock markets in the PRC and to avoid disruption of the investment in the PRC stock market to our business after the Listing, TQ Digital entered into an agreement with Liu Dejian, one of our executive Directors and beneficial owner, on 27 May 2007 to dispose its rights underlying the Asset Management Agreement at a consideration of RMB14.5 million, representing our contribution under the Asset Management Agreement. Our

FINANCIAL INFORMATION

consideration has been settled on 13 June 2007 and 13 August 2007. Guolun Holdings Limited (高能控股有限公司) has not utilised any amounts under the Asset Management Agreement to purchase any investments during the term of the Asset Management Agreement between Guolun Holdings Limited (高能控股有限公司) and us. We consider that the transactions are fair and reasonable, and on an arm's length basis. There is no previous relationship between Guolun Holdings Limited (高能控股有限公司) and us or the Directors, save as to this transaction.

Cash flows

The following table sets forth certain information regarding our consolidated cash flows for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
			<i>(unaudited)</i>	
Net cash (used in)/generated from operating activities	(18,832)	39,597	2,650	183,925
Net cash (used in)/generated from investing activities	(7,185)	(10,018)	3,918	(13,840)
Net cash (used in)/generated from financing activities	(3,465)	21,755	—	(28,857)
Net (decrease)/ increase in cash and cash equivalents	(29,482)	51,334	6,568	141,228

Net cash generated from operating activities

The net cash generated from operating activities for the six months ended 30 June 2007 increased to approximately RMB183.9 million from approximately RMB2.7 million for the same period in 2006. The increase in net cash generated from operating activities was mainly attributable to our increased profit before income tax for the six months ended 30 June 2007 from a loss for the same period in 2006.

FINANCIAL INFORMATION

The net cash generated from operating activities for the year ended 31 December 2006 amounted to approximately RMB39.6 million as compared with net cash used in operating activities of approximately RMB18.8 million in the year ended 31 December 2005. The increase in net cash generated from operating activities was mainly attributable to the change in loss before income tax of approximately RMB30.9 million for the year ended 31 December 2005 to a profit before income tax of approximately RMB51.5 million for the year ended 31 December 2006.

Net cash used in investing activities

Net cash used in investing activities amounted to approximately RMB13.8 million for the six months ended 30 June 2007, representing an increase of approximately 453.2% as compared to the same period in 2006. The increase was mainly due to our acquisition of property, plant and equipment, including servers, computers and vehicles purchased to manage our expanded operations.

Net cash used in investing activities amounted to approximately RMB10.0 million for the year ended 31 December 2006, representing an increase of approximately 39.4% as compared to the year ended 31 December 2005. The increase in net cash flow used in investing activities for the year ended 31 December 2006 was mainly due to an increase in the purchase of property, plant and equipment, including server purchases to cope with the increased demand of our online games.

Cash flows from financing activities

Net cash used in financing activities was approximately RMB28.9 million in the six months ended 30 June 2007, which was dividends paid to our shareholders offset by issuance of new shares. There were no financing activities in the same period in 2006.

Net cash generated from financing activities was approximately RMB21.8 million for the year ended 31 December 2006, while the net cash used in financing activities for the year ended 31 December 2005 was approximately RMB3.5 million, which was for the 2004 dividend paid by NetDragon (BVI) in 2005.

Capital resources

We generally finance our operations through internally generated cash flows. Following completion of the International Placing, our Directors expect to fund our capital and operating requirements through internally generated cash flows, the net proceeds from the International Placing and cash on hand. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

Gearing ratio is defined as total debt (interest bearing banking loans) over total assets. As we did not have any interest bearing banking loans, our gearing ratio was zero during the Active Business Pursuit Period.

FINANCIAL INFORMATION

Capital expenditures and commitments

Our capital expenditures were RMB3.4 million, RMB15.7 million and RMB15.2 million for the year ended 31 December 2005 and 2006 and the six months ended 30 June 2007, respectively, and were primarily attributable to the purchase of servers and computer equipment.

The following table sets out our capital commitments as of the dates indicated:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:			
- acquisition of property, plant and equipment	<u>—</u>	<u>2,471</u>	<u>5,529</u>

The following table sets out our operating lease commitments as of the dates indicated:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,899	2,626	3,612
In the second to fifth years	1,888	655	3,085
After five years	<u>—</u>	<u>—</u>	<u>51</u>
	<u>3,787</u>	<u>3,281</u>	<u>6,748</u>

Indebtedness

Borrowings

As at the close of business on 31 August 2007, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this prospectus, we had no outstanding borrowings.

Contingent liabilities

As at the close of business on 31 August 2007, we did not have any material contingent liabilities or guarantees.

Off-balance sheet arrangements

As at the close of business on 31 August 2007, we do not have any material off-balance sheet arrangements.

FINANCIAL INFORMATION

Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from any intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans or other similar indebtedness, debentures or other loan capital (issued or agreed to be issued), mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities at the close of business on 31 August 2007.

No material changes

Except as noted above, our Directors have confirmed that there have been no material change in the Group's indebtedness since 31 August 2007.

Directors' opinion on sufficiency of working capital

Our Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the International Placing, we have sufficient working capital for our foreseeable capital requirements for at least the next 12 months from the date of this prospectus. We may, however, require additional cash resources due to changes in business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

Foreign currency exposure

Our present operations are carried out in the USA and the PRC. All our receipts and payments in relation to the operations are principally denominated in RMB and US\$. In this respect, our Directors consider there is no significant currency mismatch in our operational cashflows and we are not exposed to any significant foreign currency exchange risk in our operation.

DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, our Directors were not aware of any circumstance which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

DIVIDEND AND DIVIDEND POLICY

We declared approximately RMB44.8 million and RMB34.2 million dividends to our existing shareholders on 3 February 2007 and 20 June 2007, respectively. The declaration and the amount of special dividends are in the sole discretion of our Directors, subject to such factors similar to our general dividend policy as disclosed below. We had retained earnings and cash and cash equivalents of approximately RMB121.5 million and RMB206.4 million, respectively, as at 30 June 2007. Even if NetDragon (Fujian) and NetDragon (Shanghai) are excluded, we would still have retained earnings and cash and cash equivalents of approximately RMB75.0 million and RMB106.9 million, respectively, as at 30 June 2007. On this basis, we believe that we have sufficient retained profits for the special dividends declared on 3 February 2007 and 30 June 2007, respectively.

FINANCIAL INFORMATION

Upon Listing, we may not distribute dividends exceeding the lower of our distributable reserves as determined under PRC GAAP and those under the HKFRS.

We are a holding company incorporated in the Cayman Islands and conduct our core business operations through our PRC operating subsidiaries. As a result, our profits available for dividend distribution are dependent on the profits available for distribution from our PRC subsidiaries. The PRC laws permit payment of dividends only out of net income as determined in accordance with PRC accounting standards and regulations. Determination of net income under PRC accounting standards and regulations may differ from determination under the HKFRS in significant aspects, such as the use of different principles for recognition of revenues and expenses. Our PRC subsidiaries are required to set aside at least 10% of their net income each year to fund the designated statutory reserve fund in connection with certain mandatory social welfare programs. Such statutory reserve fund is not distributable as cash dividends. As a result, our primary source of funds for dividend payments is subject to these and other legal restrictions and uncertainties.

The declaration and the amount of dividends are in the sole discretion of our Directors, subject to our results of operations, financial condition, capital requirements and any other factors which the Board may deem relevant.

DISTRIBUTABLE RESERVES

Our profit after tax can be distributed as dividends only after our PRC subsidiaries make appropriate contributions to the statutory reserve fund. As of 30 June 2007, the Company had approximately RMB166.2 million distributable reserves.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following is the unaudited pro forma net tangible assets of our Group which has been prepared based on the audited consolidated net tangible assets of our Group attributable to the equity holders of the Company as at 30 June 2007, as shown in the accountants' report, the text of which is set forth in Appendix I to this prospectus, after giving effect to the pro forma adjustments described in the notes thereto. A narrative description of the pro forma adjustments of the International Placing that are (i) directly attributable to the transaction; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2007 HK\$'000 (Note 1)	Estimated net proceeds from the International Placing HK\$'000	Unaudited pro forma net tangible assets HK\$'000	Unaudited pro forma net tangible assets per Share HK\$
Based on 95,600,000 Placing Shares at the Placing Price of HK\$13.18 per Share, being the upper price of the price range (Note 2)	<u>223,716</u>	<u>1,173,908</u>	<u>1,397,624</u>	<u>2.59</u>
Based on 95,600,000 Placing Shares at the Placing Price of HK\$11.18 per Share, being the lower price of the price range (Note 3)	<u>223,716</u>	<u>990,356</u>	<u>1,214,072</u>	<u>2.25</u>

FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2007 of RMB228,282,000 are translated into Hong Kong Dollars at the exchange rate of HK\$1 to RMB0.98.
2. The estimated net proceeds from the International Placing are based on the Placing Price of HK\$13.18 per Placing Share, after deduction of the estimated underwriting fees and related expenses in connection with the International Placing.
3. The estimated net proceeds from the International Placing are based on the Placing Price of HK\$11.18 per Placing Share, after deduction of the estimated underwriting fees and related expenses in connection with the International Placing.
4. The calculation of the unaudited pro forma net tangible assets of the Group per Share is based on 540,007,860 Shares in issue after the completion of the International Placing. It has not taken into account any Shares which may fall to be issued upon the exercise of Over-allotment Option or the exercise of the options which may be granted under the Share Option Scheme as detailed in section headed “Share Option Scheme” in Appendix V to this prospectus or any Shares which may be allotted and issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed “Written resolutions of all the Shareholders passed on 15 October 2007” in the section headed “Further information about the Company” in Appendix V to this prospectus.

NO MATERIAL ADVERSE CHANGE

We confirm that there has been no material adverse change in our financial or trading position of the Company or its subsidiaries since 30 June 2007 (being the date to which our latest audited consolidated financial statements were prepared).

UNDERWRITING

UNDERWRITERS

Bear Stearns Asia Limited

First Shanghai Securities Limited

Cazenove Asia Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

In connection with the International Placing, it is expected that among other parties, the Company and the Selling Shareholders will enter into the Underwriting Agreement with the Underwriters on or about the Price Determination Date. Pursuant to the Underwriting Agreement, we are offering by way of International Placing at the Placing Price, 108,000,000 Placing Shares for subscription by selected professional, institutional and private investors, subject to the terms and conditions of this prospectus.

Subject to, among other matters, the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein not later than the date which is 30 days after the date of this prospectus (or such later date as Bear Stearns (for itself and on behalf of the Underwriters) may agree) and the Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms on or before 8:00 a.m. on the Listing Date, the Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Placing Shares at the Placing Price according to their respective underwriting commitment.

We have granted the Over-allotment Option to the Underwriters exercisable by Bear Stearns (for itself and on behalf of the Underwriters) to require the Company to allot and issue up to an aggregate of 16,200,000 additional Shares, representing 15% of the Shares initially offered under the International Placing, solely to cover over-allocations in the International Placing, if any. The Over-allotment Option will expire on the date which is 30 days from the Listing Date. Details are set out in the paragraph headed “Stabilisation and Over-allotment Option” of the section headed “Structure and conditions of the International Placing” in this prospectus.

Grounds for termination

The obligations of the Underwriters under the Underwriting Agreement will be subject to termination by notice in writing from Bear Stearns (for itself and on behalf of the Underwriters) to us if, at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares commence on the Stock Exchange (which is expected to be on Friday, 2 November 2007):

1. there shall develop, occur, exist or come into effect:
 - (i) any new law or regulation or any change (whether or not forming part of a series of changes) in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or

UNDERWRITING

- (ii) any change or development, or any event or series of events likely to result in any change or development (whether permanent or not), in local, national, regional or international financial, political, military, industrial, economic, currency or market conditions or any monetary or trading settlement system (including but not limited to a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a revaluation of the Renminbi against foreign currencies); or
- (iii) any change or development in the conditions of local, national or international equity securities or other financial markets; or
- (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange; or
- (v) a change, or development involving a prospective change, in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdiction relevant to us; or
- (vi) any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of us; or
- (vii) any act of god, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, pandemic, terrorism, strike or lock-out and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis; or
- (viii) any litigation or claim being threatened or instigated by any third party against us, which will or may result in us incurring liability that is material to us; or which, in the reasonable opinion of Bear Stearns (for itself and on behalf of the Underwriters):
 - (a) is or will be or is likely to be materially adverse to the business, financial or other condition or prospects of us; or
 - (b) has or will have or is likely to have a materially adverse effect on the success of the International Placing or the level of Placing Shares being applied for or accepted or the distribution of Placing Shares; or
 - (c) makes it inadvisable or impracticable or inexpedient to proceed with the International Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by this prospectus; or

UNDERWRITING

2. there comes to the notice of any of the Underwriters:
- (i) any matter or event showing any of the warranties, representations or undertakings given by us or the executive Directors or any Selling Shareholder in the Underwriting Agreement to be untrue, incorrect, inaccurate or misleading when given or repeated; or
 - (ii) any breach on the part of any of us or the executive Directors of any of the provisions of the Underwriting Agreement; or
 - (iii) that any statement contained in this prospectus was, when it was issued, or has become, untrue, incorrect or misleading in any material respect; or
 - (iv) that any matter has arisen which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom.

Undertakings

Each of the Initial Management Shareholders (other than Wu Chak Man, Liu Ming, Growing Up Capital Inc. and Wu Jialiang), has undertaken to the Company, Bear Stearns (for itself and on behalf of the Underwriters) and the Stock Exchange that for a period of 12 months from the Listing Date:

- (a) save as provided in Rule 13.18 of the GEM Listing Rules, he/it shall not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his/its direct or indirect interest in his/its relevant securities as defined in rule 13.15(4) of the GEM Listing Rules (the “Relevant Securities”) or otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of his/its interests;
- (b) he/it shall place in escrow, with an escrow agent acceptable to the Stock Exchange, his/its Relevant Securities on terms acceptable to the Stock Exchange;
- (c) in the event that he/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant period set out above, he/it must inform us and Bear Stearns immediately thereafter, disclosing the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made; and
- (d) having pledged or charged any of his/its interest in the Relevant Securities under sub-paragraph (c) above, he/it must inform us and Bear Stearns immediately in the event he/it becomes aware that the pledgee(s) or chargee(s) has/have disposed of or intend(s) to dispose of such interest and of the number of the Relevant Securities affected.

UNDERWRITING

Each of the Other Investors, Wu Chak Man, Liu Ming, Growing Up Capital Inc. and Wu Jialiang has undertaken to us, Bear Stearns (for itself and on behalf of the Underwriters) and the Stock Exchange that for a period of six months from the Listing Date:

- (a) he/it shall place in escrow, with an escrow agent acceptable to the Stock Exchange, his/its Relevant Securities on terms acceptable to the Stock Exchange;
- (b) save as provided in Rule 13.18 of the GEM Listing Rules, he/it shall not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his/its direct or indirect interest in the Relevant Securities or otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of his/its interests;
- (c) in the event that he/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant period set out above, he/it must inform us and Bear Stearns immediately thereafter, disclosing the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made; and
- (d) having pledged or charged any of his/its interest in the Relevant Securities under sub-paragraph (c) above, he/it must inform us and Bear Stearns immediately in the event he/it becomes aware that the pledgee(s) or chargee(s) has/have disposed of or intend(s) to dispose of such interest and of the number of the Relevant Securities affected.

Commission and expenses

The Underwriters will receive a commission of 4% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions. The underwriting commission, the documentary fee, the Stock Exchange listing fees and trading fee, the SFC transaction levy, the legal and other professional fees together with applicable printing and other expenses relating to the International Placing, are estimated to amount to approximately HK\$88.3 million in total. The estimated amount of commission and expenses is based on the Placing Price of HK\$12.18 (being the mid-point of the indicative range of the Placing Price between HK\$11.18 and HK\$13.18 per Share) and the assumption that the Over-allotment Option is not exercised.

Underwriters' interest in the Company

Save for their obligations under the Underwriting Agreement and as disclosed in this prospectus, none of the Underwriters has any shareholding interest in us or our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate other persons to subscribe for securities in us or any of our subsidiaries.

UNDERWRITING

Compliance adviser

On the Price Determination Date, we intend to enter into an agreement (the “Compliance Adviser Agreement”) with First Shanghai Capital to appoint it as our compliance adviser pursuant to the requirements under Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.19 of the GEM Listing Rules, the appointment is expected to be for a term commencing on the Listing Date and ending on the date on which we distribute the annual report for the second full financial year commencing after the Listing Date in accordance with Rule 18.03 of the GEM Listing Rules, unless terminated earlier pursuant to the terms of the agreement thereof.

Joint Sponsors’ interest in us

Save for the advisory fees to be paid to Bear Stearns and First Shanghai Capital as the Joint Sponsors to the International Placing, the obligations of First Shanghai Capital under the Compliance Adviser Agreement and the obligations of the Joint Lead Managers under the Underwriting Agreement, and interests in securities that may be subscribed for pursuant to the International Placing, neither Bear Stearns nor First Shanghai Capital or any of their associates has or may, as a result of the International Placing, have any interest in any class of securities in us or any of our subsidiaries (including options or rights to subscribe for such securities).

No director or employee of Bear Stearns or First Shanghai Capital who is involved in providing advice to us has or may, as a result of the International Placing, have any interest in any class of securities of us or any of our subsidiaries (including options or rights to subscribe for such securities that may be subscribed for or purchased by any such director or employee pursuant to the International Placing).

No director or employee of Bear Stearns or First Shanghai Capital has a directorship in us or any of our subsidiaries.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

PRICE DETERMINATION

The Placing Price will be fixed by an agreement expected to be entered into between us and Bear Stearns (for itself and on behalf of the Underwriters) on or before the Price Determination Date which is currently scheduled on or before Friday, 26 October 2007 and, in any event, not later than Monday, 29 October 2007. **If we and Bear Stearns (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Placing Price by the Price Determination Date or the Underwriting Agreement is not signed, the International Placing will not become unconditional and will lapse.**

The Placing Price will not be higher than HK\$13.18 per Share, and is currently expected to be not lower than HK\$11.18 per Share. **Prospective investors of the Placing Shares should be aware that the Placing Price to be determined at or before the Price Determination Date may be, but is currently not expected to be, lower than the indicative range of the Placing Price stated in this prospectus.**

If, based on the level of interest expressed by prospective professional, institutional or private investors during the book-building process, Bear Stearns (for itself and on behalf of the Underwriters) and with our consent consider it appropriate (for instance, if the level of interest is below of indicative Placing Price range), the indicative Placing Price range may be reduced below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, we shall, as soon as practicable following the decision to make such reduction, and in any event not later than Monday, 29 October 2007 cause there to be published on the GEM website notice of the reduction of the indicative Placing Price range.

The Placing Price, the level of indications of interests in the International Placing and the basis of allocations of the Placing Shares will be announced on the GEM website at or before 9:00 a.m. Thursday, 1 November 2007. If the Price Determination Date is changed for any reason, we will as soon as practicable cause to be published on the GEM website the relevant change and set out (if applicable) the notice of the changed Price Determination Date.

PRICE PAYABLE ON SUBSCRIPTION

Subscribers, when subscribing for Placing Shares, shall pay the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% SFC transaction levy. Assuming the Placing Price is HK\$13.18 or HK\$11.18 per Share (being the highest and lowest prices of indicative Placing Price range), respectively, investors shall pay a total Placing Price of HK\$6,656.49 or HK\$5,646.40, respectively for every board lot of 500 Shares.

The level of indications of interests in the International Placing and the basis of allocations of the Placing Shares will be announced on the GEM website at www.hkgem.com and the Company's website at www.nd.com.cn at or before 9:00 a.m. Thursday, 1 November 2007.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

CONDITIONS OF THE INTERNATIONAL PLACING

The International Placing is conditional upon:

- (1) the GEM Listing Committee granting listing of and permission to deal in the Share in issue and to be issued as described in this prospectus;
- (2) the Placing Price having been agreed between us and Bear Stearns (for itself and on behalf of the Underwriters) and the Price Determination Agreement having been executed and delivered on or before the Price Determination Date; and
- (3) the obligations of the Underwriters under the Underwriting Agreement becoming and remaining unconditional (including if relevant, as a result of the waiver of any condition(s) by Bear Stearns (for itself and on behalf of the Underwriters)), and such obligations not having been terminated in accordance with the terms of the Underwriting Agreement,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Thursday, 22 November 2007, being the date which is the 30th day after the date of this prospectus.

If these conditions are not fulfilled or (where applicable) waived by Bear Stearns (for itself and on behalf of the Underwriters) on or before the day which is the 30th day after the date of this prospectus, the International Placing shall lapse and the Stock Exchange will be notified immediately. Notice of lapse of the International Placing will be caused to be published by us on the GEM website on the next day after such lapse.

THE INTERNATIONAL PLACING

We are initially offering 108,000,000 Placing Shares in the International Placing, representing about 20.0% of our enlarged registered capital at the time after completing the International Placing, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Placing Shares will represent approximately 22.3% of the enlarged registered capital immediately after completion of the International Placing and the exercise of the Over-allotment Option as set out in the paragraph headed “Stabilisation and Over-allotment Option” below. Subject to the terms and conditions of the Underwriting Agreement, the Placing Shares are expected to be fully underwritten by the Underwriters.

The Underwriters or agents nominated by them on behalf of us will conditionally place the Placing Shares at the Placing Price with professional, institutional and private investors anticipated to have a sizeable demand for the Placing Shares. Conditionally upon complying with the relevant rules and regulations, the Placing Shares can be placed with individual investors in Hong Kong. Professional and/or institutional investors generally include dealers, brokers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of us and our shareholders as a whole.

No allocations will be made to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. Details of the International Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

STABILISATION AND OVER-ALLOTMENT OPTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the Underwriters may bid for, agree to purchase or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Placing Price.

In connection with the International Placing, Bear Stearns (for itself and on behalf of the Underwriters) may over-allocate Shares or effect transactions with a view to supporting the market price of the Placing Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. In covering such over-allocations, Bear Stearns (for itself and on behalf of the Underwriters) may exercise the Over-allotment Option no later than 30 days after the Listing Date or make (or agree, offer or attempt to make) open-market purchases in the secondary market. Bear Stearns (for itself and on behalf of the Underwriters) may also sell or agree to sell any Shares acquired in the course of any stabilisation action in order to liquidate any position that has been established by such action. Any such secondary market purchase or sale will be made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Bear Stearns to conduct any such stabilising action which, if taken, may be discontinued at any time at the absolute discretion of Bear Stearns and is required to be brought to an end after a limited period. The number of Shares over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 16,200,000 Shares, which is 15% of the Placing Shares initially available for subscription under the International Placing. Pursuant to Securities and Futures (Price Stabilising) Rules under the SFO, stabilising action may only take place, among other factors, where the total value of the International Placing is not less than HK\$100 million. If Bear Stearns (for itself and on behalf of the Underwriters) decides to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the International Placing. The Placing Shares (including any over-allocations) will be allocated prior to the commencement of trading of the Shares on GEM.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

If the Over-allotment Option is exercised in full, the aggregate number of Shares to be issued under the International Placing will represent approximately 22.3% of our enlarged registered capital following completion of the International Placing and full exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made by us.

In order to cover over-allocations in the International Placing, Bear Stearns have entered into a stock borrowing arrangement with DJM Holding Ltd., under which DJM Holding Ltd. agreed to lend to Bear Stearns up to 16,200,000 Shares so that Bear Stearns may use those Shares to satisfy the over-allocations. Bear Stearns may, in its sole and absolute discretion, exercise the Over-allotment Option requiring us to issue and allot Shares to return the Shares borrowed to DJM Holding Ltd. upon the expiry of the Over-allotment Option, being 30 days after the Listing Date.

The stock borrowing arrangement is for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option. The maximum number of Shares to be borrowed from DJM Holding Ltd. is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option. The same number of Shares borrowed will be returned to DJM Holding Ltd. and deposited with its escrow agent within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full.

Bear Stearns may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position and the period of time for which Bear Stearns will maintain such a position is at the discretion of Bear Stearns and is uncertain. In the event that Bear Stearns liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilisation action cannot be taken to support the price of the Placing Shares for longer than the stabilising period beginning on the Listing Date and ending on the 30th day after the closing date (as such term is defined in the Securities and Futures (Price Stabilising) Rules under the SFO). The stabilising period is expected to expire on Sunday, 2 December 2007, and that after this date, when no further stabilising action may be taken, the demand for and the price of the Shares could fall. Within seven days after the end of the stabilisation period, we will make a public announcement disclosing information in compliance with section 9 of and schedule 3 to the Securities and Futures (Price Stabilising) Rules under the SFO.

Investors should be aware that the price of the Shares cannot be assured to stay at or above the Placing Price by implementing any stabilising action. Stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Placing Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Placing Shares.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on Friday, 2 November 2007.

The Shares will be traded in board lots of 500 each.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares to be issued pursuant to the International Placing and any Shares which may fall to be allotted and issued pursuant to any exercise of the Over-allotment Option on GEM by GEM Listing Committee and the compliance by us with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or such other date as determined by HKSCC. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus received from the reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton 
均 富 會 計 師 行

23 October 2007

The Directors
NetDragon Websoft Inc.
Bear Stearns Asia Limited
First Shanghai Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding NetDragon Websoft Inc. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the years ended 31 December 2005 and 2006 and six months ended 30 June 2007 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 23 October 2007 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) as fully explained in paragraph 1F headed “Group reorganisation” in Appendix V to the Prospectus, the Company has since 18 May 2007 become the ultimate holding company of the subsidiaries now comprising the Group as set out in note 1 of Section II below. Save for the Reorganisation, the Company has not carried out any other business since its date of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried out any business other than the Reorganisation. The statutory financial statements of the subsidiaries established in the People’s Republic China (the “PRC”) were prepared in accordance with the relevant accounting principles and financial regulations applicable to these PRC subsidiaries. The names of the statutory auditors of these PRC subsidiaries are set out in note 1 of Section II below. No audited financial statements have been prepared for the subsidiary incorporated in Hong Kong as it is newly incorporated. No audited financial statements have been prepared for other subsidiaries since their respective date of incorporation as there is no statutory audit requirement under their jurisdictions of incorporation.

For the purpose of this report we have examined the audited financial statements and, where appropriate, management accounts (the “Underlying Financial Statements”) of the companies now comprising the Group for the Relevant Periods and carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The financial information set out in this report, including the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2005, 31 December 2006 and 30 June 2007, and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Periods, together with the notes thereto (collectively referred to as the “Financial Information”), have been prepared based on the Underlying Financial Statements following the basis set out in note 1 of Section II below, after making such adjustments as appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA. The directors of the respective companies are responsible for the preparation and true and fair presentation of the Underlying Financial Statements. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to conduct independent audit procedures on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA, to express an opinion on the Financial Information based on our audit, and to report our opinion to you.

In our opinion, the Financial Information set out below gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005, 31 December 2006 and 30 June 2007 and of the Group’s results and cash flows for the years/period then ended.

The unaudited comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the six months ended 30 June 2006 together with the notes thereon (the “Comparative Financial Information”) have been extracted from the Group’s consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the Comparative Financial Information in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. Our review consisted principally of making enquires of management and applying analytical procedures to the Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December		Six months ended 30 June	
	Notes	2005	2006	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue - turnover	7	35,119	122,061	26,111	261,749
Cost of revenue		(4,669)	(11,179)	(3,253)	(14,665)
Gross profit		30,450	110,882	22,858	247,084
Other revenue and gains	7	4,950	5,673	1,715	1,330
Selling and marketing expenses		(25,450)	(13,838)	(5,531)	(30,345)
Administrative expenses		(16,906)	(22,960)	(9,199)	(19,418)
Development costs	8	(15,464)	(12,835)	(5,463)	(13,137)
Other operating expenses		(8,501)	(15,377)	(5,660)	(13,248)
Operating (loss)/profit	8	(30,921)	51,545	(1,280)	172,266
Loss on disposal of an associate		—	(2)	—	—
(Loss)/Profit before income tax		(30,921)	51,543	(1,280)	172,266
Income tax credit/(expense)	11	1,721	(8,558)	(1,500)	(18,179)
(Loss)/Profit for the year/period		<u>(29,200)</u>	<u>42,985</u>	<u>(2,780)</u>	<u>154,087</u>
Attributable to					
Equity holders of the Company		(29,171)	42,856	(2,780)	153,839
Minority interests		(29)	129	—	248
		<u>(29,200)</u>	<u>42,985</u>	<u>(2,780)</u>	<u>154,087</u>
Dividends	12	<u>—</u>	<u>—</u>	<u>—</u>	<u>79,069</u>
		<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
(Loss)/Earnings per share	13				
- attributable to the equity holders of the Company		<u>(7.29)</u>	<u>10.70</u>	<u>(0.69)</u>	<u>34.79</u>

CONSOLIDATED BALANCE SHEETS

	<i>Notes</i>	At 31 December 2005 <i>RMB'000</i>	At 31 December 2006 <i>RMB'000</i>	At 30 June 2007 <i>RMB'000</i>
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	14	13,738	23,211	34,815
Interest in an associate	15	430	—	—
Available-for-sale financial asset	16	4,000	4,000	4,000
Deferred tax assets	24	6,046	201	54
		<u>24,214</u>	<u>27,412</u>	<u>38,869</u>
Current assets				
Investment in trading securities	16	4,599	851	453
Trade and other receivables	17	9,953	40,354	45,513
Amounts due from related parties	23(iii)	5,530	11,357	3,293
Tax recoverable		—	—	3,051
Cash and cash equivalents	18	15,277	66,322	206,406
		<u>35,359</u>	<u>118,884</u>	<u>258,716</u>
Current liabilities				
Trade and other payables	19	17,103	37,910	54,145
Amounts due to related parties	23(iii)	2,156	725	669
Income tax payable		345	2,954	14,112
		<u>19,604</u>	<u>41,589</u>	<u>68,926</u>
Net current assets		<u>15,755</u>	<u>77,295</u>	<u>189,790</u>
Total assets less current liabilities/Net assets		<u>39,969</u>	<u>104,707</u>	<u>228,659</u>
EQUITY				
Share capital	21(b)	1,650	1,650	3,506
Reserves	22(b)	38,319	102,928	224,776
Equity attributable to the equity holders of the Company		39,969	104,578	228,282
Minority interests		—	129	377
Total equity		<u>39,969</u>	<u>104,707</u>	<u>228,659</u>

BALANCE SHEETS

		At 31 December		At 30 June
	Notes	2005	2006	2007
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary	22(a)	—	—	167,871
Current assets				
Amounts due from related parties	23(iii)	1,453	1,453	—
Amount due from a subsidiary	20	—	—	1,813
		<u>1,453</u>	<u>1,453</u>	<u>1,813</u>
Net assets		<u>1,453</u>	<u>1,453</u>	<u>169,684</u>
EQUITY				
Share capital	21(a)	1,453	1,453	3,506
Reserve	22(a)	—	—	166,178
Total equity		<u>1,453</u>	<u>1,453</u>	<u>169,684</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of the Company									Total equity
	Share capital	Share premium	Capital contribution	Capital reserve	Statutory reserves	Translation reserve	Retained profits	Total	Minority interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 22(b)(i))		(note 22(b)(ii))	(note 22(b)(iii))					
At 1 January 2005	1,650	16,267	—	11,399	2,676	177	37,156	69,325	29	69,354
Exchange difference arising on translation of overseas operations/Expense recognised directly in equity	—	—	—	—	—	(185)	—	(185)	—	(185)
Loss for the year	—	—	—	—	—	—	(29,171)	(29,171)	(29)	(29,200)
Total recognised income and expense for the year	—	—	—	—	—	(185)	(29,171)	(29,356)	(29)	(29,385)
At 31 December 2005 and 1 January 2006	1,650	16,267	—	11,399	2,676	(8)	7,985	39,969	—	39,969
Exchange difference arising on translation of overseas operations/Expense recognised directly in equity	—	—	—	—	—	(2)	—	(2)	—	(2)
Profit for the year	—	—	—	—	—	—	42,856	42,856	129	42,985
Total recognised income and expense for the year	—	—	—	—	—	(2)	42,856	42,854	129	42,983
Capital received in advance (note 22(b)(i))	—	—	21,755	—	—	—	—	21,755	—	21,755
Appropriations	—	—	—	—	4,092	—	(4,092)	—	—	—
At 31 December 2006 and 1 January 2007	1,650	16,267	21,755	11,399	6,768	(10)	46,749	104,578	129	104,707
Exchange difference arising on translation of overseas operations/Income recognised directly in equity	—	—	—	—	—	175	—	175	—	175
Profit for the period	—	—	—	—	—	—	153,839	153,839	248	154,087

APPENDIX I

ACCOUNTANTS' REPORT

	Attributable to the equity holders of the Company								
	Share capital	Share premium	Capital contribution	Capital reserve	Statutory reserves	Translation reserve	Retained profits	Total	Minority interests
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 22(b)(i))		(note 22(b)(ii))	(note 22(b)(iii))				
Total recognised income and expense for the period	—	—	—	—	—	175	153,839	154,014	248
Issue of shares by the Company (note 21(a)(iv))	—	—	—	360	—	—	—	360	—
Issue of shares by a subsidiary (note 21(b) note 22(b)(i))	170	69,984	(21,755)	—	—	—	—	48,399	—
Dividend declared (note 12)	—	—	—	—	—	—	(79,069)	(79,069)	—
Arising from Shares Swap (note 1)	1,686	—	—	(1,813)	—	127	—	—	—
At 30 June 2007	<u>3,506</u>	<u>86,251</u>	<u>—</u>	<u>9,946</u>	<u>6,768</u>	<u>292</u>	<u>121,519</u>	<u>228,282</u>	<u>377</u>
For the six months ended 30 June 2006 (unaudited)									
At 1 January 2006	1,650	16,267	—	11,399	2,676	(8)	7,985	39,969	—
Exchange difference arising on translation of overseas operations/Expense recognised directly in equity	—	—	—	—	—	(129)	—	(129)	—
Loss for the period	—	—	—	—	—	—	(2,780)	(2,780)	—
Total recognised income and expense for the period	—	—	—	—	—	(129)	(2,780)	(2,909)	—
At 30 June 2006	<u>1,650</u>	<u>16,267</u>	<u>—</u>	<u>11,399</u>	<u>2,676</u>	<u>(137)</u>	<u>5,205</u>	<u>37,060</u>	<u>—</u>

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(unaudited)</i>	
Cash flows from operating activities				
(Loss)/Profit before income tax	(30,921)	51,543	(1,280)	172,266
Adjustments for:				
Gain on disposal of an available-for-sale financial asset	(54)	—	—	—
Loss on disposal of an associate	—	2	—	—
Fair value gain on investment in trading securities	—	(383)	(152)	(104)
Interest income	(392)	(614)	(138)	(851)
Depreciation of property, plant and equipment	3,958	4,457	1,934	3,569
Write off of property, plant and equipment	517	795	—	—
Loss on disposal of property, plant and equipment	112	466	8	20
Impairment on trade receivables	2	416	379	347
Foreign exchange differences	443	287	(49)	1,319
	(26,335)	56,969	702	176,566
Increase in trade and other receivables	(3,010)	(30,817)	(6,861)	(5,506)
(Increase)/Decrease in amounts due from related parties	(1,497)	(5,827)	(97)	6,611
Increase in trade and other payables	10,121	20,807	12,557	16,235
Increase/(Decrease) in amounts due to related parties	1,895	(1,431)	(1,968)	(56)
Cash (used in)/generated from operating activities	(18,826)	39,701	4,333	193,850
Income tax paid	(6)	(104)	(1,683)	(9,925)
Net cash (used in)/generated from operating activities	(18,832)	39,597	2,650	183,925

APPENDIX I**ACCOUNTANTS' REPORT**

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Cash flows from investing activities				
Interest received	392	614	138	851
Proceed from disposal of an available-for-sale financial assets	630	—	—	—
Proceed from disposal of an associate	—	428	—	—
Proceeds from disposal of property, plant and equipment	243	526	215	10
Net cash (used in)/generated from investment in trading securities	(4,599)	4,131	4,751	502
Investment in an associate	(430)	—	—	—
Purchase of property, plant and equipment	<u>(3,421)</u>	<u>(15,717)</u>	<u>(1,186)</u>	<u>(15,203)</u>
Net cash (used in)/generated from investing activities	<u>(7,185)</u>	<u>(10,018)</u>	<u>3,918</u>	<u>(13,840)</u>
Cash flows from financing activities				
Issue of shares by the Company (note 21(a)(ii)&(iv))	—	—	—	1,813
Issue of shares by a subsidiary (note 22(b)(i))	—	21,755	—	48,399
Dividend paid (note 12)	<u>(3,465)</u>	<u>—</u>	<u>—</u>	<u>(79,069)</u>
Net cash (used in)/generated from financing activities	<u>(3,465)</u>	<u>21,755</u>	<u>—</u>	<u>(28,857)</u>
Net (decrease)/increase in cash and cash equivalents	(29,482)	51,334	6,568	141,228
Cash and cash equivalents at beginning of year/period	45,393	15,277	15,277	66,322
Effect of foreign exchange rate changes	<u>(634)</u>	<u>(289)</u>	<u>(79)</u>	<u>(1,144)</u>
Cash and cash equivalents at end of year/period	<u>15,277</u>	<u>66,322</u>	<u>21,766</u>	<u>206,406</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. Formation of the Group and basis of presentation

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability. The registered office of the Company is situated at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The Group is principally engaged in online game development and operation and marketing of those online games. At the date of this report, the particulars of the subsidiaries which the Company has direct or indirect interests are set out as follows:

Name	Place and date of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Effective interest held by the Company	Principal activities	Name of the statutory auditors for 2005 and 2006
Interests held directly					
NetDragon Websoft Inc. ("NetDragon (BVI)")	Incorporated on 8 January 2003 in the British Virgin Islands ("BVI"), limited liability company	US\$222,203.93	100%	Investment holding	No statutory audit requirements
Interests held indirectly					
福建網龍計算機網絡 信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.*), formerly known as 福州網龍計算機網絡 信息技術有限公司 ("NetDragon (Fujian)")	Established on 25 May 1999 in the PRC, limited liability company	RMB10,000,000	99.36% ^Δ	Operation of online games	福建華興有限責任 會計師事務所 (Fujian Huaxing Certified Public Accountants Ltd.)
Fujian TQ Digital Inc (福建天晴數碼有限公司), formerly known as Fujian TQ Digital Ind (福建天晴數碼有限公司) and Fuzhou TQ Digital Ind (福州天晴數碼有限公司) ("TQ Digital")	Established on 28 February 2003 in the PRC, wholly-owned foreign enterprise #	RMB45,000,000	100%	Development of online games and licensing and servicing of the developed games	福建華興有限責任 會計師事務所 (Fujian Huaxing Certified Public Accountants Ltd.)
上海天坤數碼科技有限公司 (Shanghai Tiankun Digital Technology Ltd.*) ("NetDragon (Shanghai)")	Established on 20 December 2004 in the PRC, limited liability company	RMB1,000,000	99.36% ^Δ	Provision of support services to a group company in the PRC	上海曉天誠會計師 事務所有限公司 (Shanghai Xiao Tian Cheng Certified Public Accountants Co., Ltd.)
NetDragon Websoft Inc. ("NetDragon (USA)")	Incorporated on 10 July 2003 in the United States of America ("USA"), domestic stock corporation	US\$600,000	100%	Provision of support services to a group company in the USA (<i>note</i>)	No statutory audit requirements
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司) ("NetDragon (HK)")	Incorporation on 28 June 2007 in Hong Kong, limited liability company	HK\$1	100%	Dormant	Not applicable

Note: NetDragon (USA) was engaged in operation of online games before 1 June 2007.

* for identification purpose only

converted to a wholly-owned foreign enterprise on 28 November 2003

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

The formation of the Group is attributable to the following major events which are part of the Reorganisation:

- (i) On 18 May 2007, in consideration for the shareholders of NetDragon (BVI) transferring the entire issued share capital in NetDragon (BVI), the then ultimate holding company of TQ Digital and NetDragon (USA), to the Company, an aggregate of 19,553,727 common shares of US\$0.01 each and 2,666,666 preferred shares of US\$0.01 of the Company were allotted and issued to the shareholders of NetDragon (BVI) (the "Shares Swap"). The total number of new shares issued by the Company is identical to the total number of shares of NetDragon (BVI) and the total number of shares of the Company in issue on that date.
- (ii) On 28 September 2007 and 15 October 2007, TQ Digital entered into certain agreements with NetDragon (Fujian) and the equity holders of NetDragon (Fujian) (the "Structure Contracts") which took effect on 1 January 2007. As a result of the Structure Contracts, NetDragon (Fujian) and its wholly-owned subsidiary, NetDragon (Shanghai), are controlled by TQ Digital and accordingly, the results of NetDragon (Fujian) and NetDragon (Shanghai) are consolidated in the financial statements of the Group in accordance with Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" ("HKAS 27") issued by the HKICPA.

Pursuant to the Structure Contracts, a management committee (the "Management Committee") is set up to oversee the business and operation of the online game business conducted by TQ Digital and NetDragon (Fujian), including supervision of their day-to-day operations, management of manpower resources allocation between TQ Digital and NetDragon (Fujian), supervision of matters related to staff recruitment and training, approval and monitoring of the daily expenditure and payments of NetDragon (Fujian), formulation of the business plan of NetDragon (Fujian) and providing guidance and recommendations to NetDragon (Fujian) in respect of its strategic development, imposing restrictions on certain activities such as disposal or acquisition of assets or rights and creating security interests over NetDragon (Fujian)'s assets or intellectual property to third parties, and procurement of the provision of various services provided by TQ Digital to NetDragon (Fujian) in exchange for fees as further explained in the following paragraph. The Management Committee effectively governs the financial and operating activities of NetDragon (Fujian). Since the Management Committee is ultimately controlled by TQ Digital by virtue of its power to appoint or remove all the members of the Management Committee, TQ Digital is in a position to govern the financial and operating policies of NetDragon (Fujian).

Through certain commercial arrangements (the "Commercial Arrangements") attached to the Structure Contracts, TQ Digital is able to obtain economic benefits from the operation of NetDragon (Fujian). Under the Commercial Arrangements, TQ Digital provides software licenses, technical support service and software development service to NetDragon (Fujian) in return for fees which represent a substantial amount of the revenue generated by NetDragon (Fujian) from the operation of online game business. In addition, according to the Structure Contracts, NetDragon (Fujian) is obliged to maintain its net asset value at the amount not exceeding its net asset value as at 31 December 2006 determined in accordance with the PRC accounting standards or as adjusted based on the accounting principles generally accepted in Hong Kong (approximately RMB15,000,000) and the Management Committee is authorised to review the financial position of NetDragon (Fujian) regularly and to carry out the necessary measures to procure the fulfilment of such obligation by NetDragon (Fujian). As a result of the above arrangements, TQ Digital is entitled to substantially all of the operating profits generated by NetDragon (Fujian).

Despite the lack of shareholding in NetDragon (Fujian), the agreements entered into by TQ Digital and the equity holders of NetDragon (Fujian) confer TQ Digital the power and authority to exercise control over NetDragon (Fujian). Pursuant to the agreements:

- all the equity holders of NetDragon (Fujian) have granted irrevocable proxy to TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting right in the capacity of shareholders of NetDragon (Fujian);
- the equity holders of NetDragon (Fujian) have agreed not to enter into any transaction that may materially affect the assets, liabilities, equity or operations of NetDragon (Fujian) without the prior written consent of TQ Digital;
- the equity holders of NetDragon (Fujian) have agreed not to transfer, sell, pledge, dispose of or create any encumbrance on their equity interest in NetDragon (Fujian) without the prior written consent of TQ Digital;
- NetDragon (Fujian) will not distribute any dividend; and
- the equity holders of NetDragon (Fujian) have pledged their equity interest in NetDragon (Fujian) to TQ Digital as a security against its payment obligations and other obligations and covenants under the Structure Contracts.

The Structure Contracts taken as a whole allow TQ Digital to govern the financial and operating policies of NetDragon (Fujian) and TQ Digital is able to obtain substantially all economic benefits from the activities conducted by NetDragon (Fujian). Accordingly, the directors of the Company regard NetDragon (Fujian) and NetDragon (Shanghai) as the subsidiaries of the Group as defined under HKAS 27.

As the Company, NetDragon (BVI), TQ Digital, NetDragon (USA), NetDragon (Fujian) and NetDragon (Shanghai) were ultimately controlled by the same group of parties before and after the formation of the Group, the Financial Information is thereby prepared using the principles of merger accounting as set out in Accounting Guideline 5 “Merger accounting under common control combination” issued by the HKICPA. As further explained in note 3(a) below, the Financial Information presents the combined results, combined changes in equity, combined cash flows and combined financial positions of the companies now comprising the Group as if the current group structure had been in existence on 1 January 2005, the beginning of the earliest period presented.

As at 31 December 2005 and 2006, the Reorganisation was not yet completed. The share capital of the Group as at 31 December 2005 and 2006 represented the share capital of NetDragon (BVI), being the holding company of TQ Digital and NetDragon (USA) as at those dates as well as the holding company of NetDragon (Fujian) and NetDragon (Shanghai) by virtue of the Structure Contracts. Upon the formation of the Group on 18 May 2007 as a result of the Shares Swap which took effect on the same date, the Company became the holding company of the Group and the share capital in the consolidated balance sheet as at 30 June 2007 represented the share capital of the Company. Minority interests represent the portion of profit or loss and net assets attributable to those equity owners outside the Group during the Relevant Periods.

2. Basis of preparation

The Financial Information has been prepared in accordance with HKFRS which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. It has been prepared under the historical cost convention except for the revaluation of certain financial assets and financial liabilities which are stated at fair value. The measurement bases are fully described in the accounting policies below.

The Group has not issued any financial statements prior to this report since the Company was incorporated on 29 July 2004. The HKICPA issued a number of new and revised HKFRS which are effective during the Relevant Periods and in preparing and presenting the Financial Information, the Group has adopted all these new and revised HKFRS consistently throughout the Relevant Periods.

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

HKFRS 8	Operating Segments ¹
HKAS 23 (revised)	Borrowing costs ¹
HK(IFRIC)-INT 11	HKFRS 2 - Group and Treasury Share Transactions ²
HK(IFRIC)-INT 12	Service Concession Arrangements ³
HK(IFRIC)-INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-INT 14	HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 March 2007

3 Effective for annual periods beginning on or after 1 January 2008

4 Effective for annual periods beginning on or after 1 July 2008

The Group is in the process of assessing the impact of these new or revised HKFRS and based on a preliminary assessment, these new or revised HKFRS would not have material effect on the Financial Information of the Group.

It should be noted that accounting estimates and assumptions have been used in preparing the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas where assumptions and estimates are significant to the Financial Information or areas involving higher degree of judgement or complexity are set out in note 4.

3. Significant accounting policies

(a) *Merger accounting*

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. The Financial Information includes the results of each of the combining entities or businesses from the date of incorporation/establishment or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. All significant intra-group transactions, balances and unrealised gains on transactions have been eliminated on combination. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

(b) *Subsidiary*

A subsidiary is an entity (including special purpose entity) over which the Company has power to govern its financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for those acquisitions which qualify as a common control combination, which are accounted for using merger accounting (note 3(a)).

(c) *Associates*

An associate is an entity over which the Group is able to exercise significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights. An investment in an associate is accounted for in the Financial Information under the equity method of accounting and is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment losses. The Financial Information include the Group's share of the post-acquisition, post-tax results of the associate for the year.

(d) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Leasehold improvements	shorter of the lease terms and 20%
Computer and office equipment	19% - 20%
Motor vehicles	19%

Useful lives, residual values and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected to arise from the continued use of the item. Any gain or loss arising on derecognising the item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(e) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(f) *Foreign currencies*

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the group entity operates (i.e. the “functional currency”). The Financial Information is presented in Renminbi (“RMB”), which is the functional and presentation currency of the Company and most of its subsidiaries.

In preparing the financial statements of individual group entity, transactions in currencies other than the group entity’s functional currency (i.e. foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

For the purpose of preparing the Financial Information, the assets and liabilities of the subsidiaries which functional currency is not RMB are translated into RMB at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. Foreign exchange gains and losses arising thereon are dealt with in the translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

(g) *Impairment of non-financial assets*

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount.

An asset’s recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where the carrying amount of an asset/a cash-generating unit exceeds its recoverable amount, the asset/cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/cash-generating unit. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss on non-financial assets other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset/cash-generating unit, provided the increased amount of the asset/cash-generating unit does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset/cash-generating unit in prior years. Such reversal is credited to the income statement in the period in which it arises.

(h) *Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on trade date. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

(i) *Financial assets at fair value through profit or loss*

Financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss are classified as financial assets at fair value through profit or loss. Financial assets are treated as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are subsequently measured at fair value with changes in fair value being charged to the income statement. In the Financial Information, securities held for trading that are categorised as financial assets at fair value through profit or loss are presented as "Investment in trading securities" under current assets in the balance sheet.

(ii) *Loans and receivables*

Loans and receivables including trade and other receivables and amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are included in current assets. Other loans and receivables are included in current assets unless they are expected not to be realised within 12 months after the balance sheet date and in such case, they are classified as non-current assets in the balance sheet.

Loans and receivables are subsequently carried at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Changes in value of loans and receivables through the amortisation process are recognised in the income statement.

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated or not classified in any other categories of financial assets. They are included in non-current assets unless management intends to dispose of the assets within 12 months from the balance sheet date.

After initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised as a separate component of equity until they are disposed of or determined to be impaired, at which time the cumulative loss previously recognised in equity is removed from equity and recognised in the income statement.

For available-for-sale equity investment which fair value cannot be measured reliably because (1) the variability in the range of reasonable fair value estimates is significant for that investment and (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investment is stated at cost less any impairment losses.

(i) *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is objective evidence that a financial assets or a group of financial assets is impaired. If such evidence exists, the impairment loss is measured and recognised as follows:

(i) *Loans and receivables*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognised in the income statement of the period in which the impairment occurs. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of loans and receivables is directly reduced by any identified amount of impairment. Impaired debts are derecognised when they are assessed as uncollectible.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

(ii) *Available-for-sale financial assets measured at fair value*

If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the asset's acquisition cost and the current fair value less any impairment loss on that asset previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

(iii) *Available-for-sale financial assets measured at cost*

If there is objective evidence that an impairment loss on an unquoted investment that is not carried at fair value has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(j) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and at bank, demand deposits with banks, cash deposited with an online payment service provider which can be readily withdrawn and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) *Financial liabilities*

Financial liabilities include trade and other payables as well as amounts due to related parties which are initially stated at fair value and subsequently carried at amortised cost using the effective interest method. Changes in value of financial liabilities through the amortisation process are recognised in the income statement.

(l) *Provisions and contingent liabilities*

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current year and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting

purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the unused tax credits and the unused tax losses can be utilised.

Deferred tax assets and liabilities are not recognised if temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities in respect of taxable temporary differences associated with an investment in subsidiaries are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

(n) *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised:

- (i) The Group sells pre-paid game cards to distributors and online game players. With the pre-paid game cards, online game players can credit their online game accounts with game points which can be used for the consumption of certain online games of the Group or for purchasing virtual products or premium features for the consumption of other online games of the Group which are free-to-play. The game users can also credit their online game accounts by direct payment. Such income received is deferred and recorded as deferred income under current liabilities and would be recognised as revenue (i.e. online game revenue) upon the actual usage of the game points. Revenue recognised in respect of operating the online games is net of any discounts, business tax and other related taxes and charges.
- (ii) Game development fee which arises from developing online games for customers is recognised as revenue by reference to the stage of completion of developing the respective online game. As game development fee is non-recurring revenue and developing online games for outsider is not a principal activity of the Group, such fee income is recognised as other revenue.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Grants from government are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other revenue and presented as such over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(o) *Cost of revenue*

Cost of revenue consist primarily of rental and maintenance fees of computer equipment and software, fees in respect of internet services, handling charges for online payment services, manufacturing costs for pre-paid game cards and depreciation, which are recognised in the income statement upon utilisation of the relevant services or when the relevant costs are incurred, as appropriate.

(p) *Development costs*

Expenditure incurred on projects to develop new products is charged to the income statement as incurred unless the Group can demonstrate the technical feasibility of completing the projects so that the asset generated will be available for use or sale, its intention to complete the projects and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. In such case, development expenditure is capitalised and deferred as intangible asset, and is amortised over its estimated useful life.

(q) *Pension obligations*

In accordance with the rules and regulations in the PRC, the employees of the entities established in the PRC participate in defined contribution retirement benefits plans organised by regional governments. The regional governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the retirement benefit obligations of all existing and future retired employees payable under the plan described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(r) *Share capital*

Ordinary shares and non-redeemable preferred shares with discretionary dividends are classified as equity. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transactions.

(s) Dividends

Dividends proposed by the directors of the group entities are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the then equity holders of the group entities in a general meeting. When these dividends have been approved by the then equity holders and declared, they are recognised as a liability.

(t) Related parties

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

- (i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control within, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;
- (ii) the party is a member of the key management personnel of the Group or its parent;
- (iii) the party is a close member of the family of any individual referred to in (i) or (ii);
- (iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (ii) or (iii); or
- (v) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

4. Critical accounting estimates and judgements

In the process of applying the Group's accounting policies, which are described in note 3, management has made various estimates and judgements which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and accounting judgements that result in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the Financial Information are discussed below:

(i) Online game revenue recognition

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

In assessing the amount of average sales value for the unutilised game points, management considers the discount rate applicable to each of the distribution and payment channels and the mix of income

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

(ii) *Subsidiary*

As detailed in note 1, NetDragon (Fujian) and NetDragon (Shanghai) are accounted for as subsidiaries as a consequence of the Structure Contracts. Significant judgements have been exercised by the management in assessing and concluding that NetDragon (Fujian) and NetDragon (Shanghai) are subsidiaries of the Group.

(iii) *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives for the property, plant and equipment of the Group. This estimate is based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in the income statement.

(iv) *Impairment of receivables*

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of the customers and other debtors and the current market condition. Management will reassess the provision at each balance sheet date. The Group's estimates may be inaccurate and any changes in estimates would affect profit or loss in future years.

(v) *Estimates of current and deferred tax*

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences would impact the income and deferred tax provisions in the period in which such determination were made.

5. Financial risk management and capital management

5.1 Financial risk management

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the board of directors meet regularly and co-operate closely with key management to identify and evaluate risks and to formulate strategies to manage financial risks.

(a) Market risk**(i) Foreign currency risk**

The Group mainly operates in the PRC with majority of the business transactions being denominated and settled in RMB. The Group also has operations in the USA and the business transactions conducted there during the Relevant Periods were mainly denominated and settled in US dollars, which is the functional currency of the relevant subsidiary. In the opinion of the management, the Group's exposure to foreign currency risk is minimal.

(ii) Interest rate risk

The Group has no external borrowing. The Group is exposed to fair value interest rate risk through the impact of rate changes on interest-bearing financial assets, mainly the cash and cash equivalents. However, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management considers that the interest rate risk encountered by the Group is currently not significant.

(iii) Price risk

The Group is exposed to equity security price risk because of the available-for-sale investment and trading securities held by the Group. However, in the opinion of the management, the Group's exposure to equity security price risk is insignificant. The Group is not exposed to commodity price risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, other receivables and amounts due from related parties. The Group limits its exposure to credit risk by rigorously selecting the counterparties. The Group's exposure to credit risk is summarised as follows:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	15,277	66,322	206,406
Trade receivables	1,131	6,200	22,664
Other receivables	2,206	18,837	2,931
Amounts due from related parties	<u>5,530</u>	<u>11,357</u>	<u>3,293</u>

The carrying amount of cash and cash equivalents, trade receivables, other receivables and amounts due from related parties represent the Group's maximum exposure to credit risk.

Credit risk on cash and cash equivalents is mitigated as cash is deposited in banks with high credit rating and reputable online payment service provider. Credit risk on trade receivables, other receivables and amounts due from related parties is minimised as the Group performs ongoing credit

evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

None of the Group's financial assets are securitised by collateral or other credit enhancements.

(c) *Liquidity risk*

Management of the Group aims at maintaining sufficient level of cash and cash equivalents to finance the Group's operations and expected expansion. The Group's primary cash requirements include payments for operating expenses and additions or upgrades of property, plant and equipment. The Group finances its working capital requirements mainly by the funds generated from operations.

All the financial liabilities of the Group will be settled within 12 months from the respective reporting date. The Group manages liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

5.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or return capital to shareholders.

Management regards total equity as capital. The amount of capital as at 31 December 2005, 31 December 2006 and 30 June 2007 amounted to RMB39,969,000, RMB104,707,000 and RMB228,659,000 respectively, which the management considers as optimal having consider the projected capital expenditures and the projected strategic investment opportunities.

5.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of debt securities is determined using the method of estimated discounted cash flows.

The carrying value of trade and other receivables, trade and other payables and cash equivalents are assumed to approximate their fair values due to the short-term maturity of these balances.

6. Segment information

Based on risks and returns, the directors of the Company consider that the primary reporting format of the Group is by business segment. The directors consider that there is only one business segment, being online game development and operation and marketing of those online games. The disclosures for the primary segment have already been given in this Financial Information and therefore no further information about business segment is presented.

Geographical segment is the secondary reporting format of the Group. In determining the Group's geographical segments, revenue is attributed to the segments based on the location where services are provided and assets and capital expenditure are attributed to the segments based on the location of the assets. Unallocated assets mainly comprise available-for-sale financial assets, deferred tax assets, investment in trading securities, non-operating cash and cash equivalents, amounts due from related parties and amount due from a PRC entity, Guolun Holdings Limited (高能控股有限公司) (note 17 (ii)).

The Group's turnover analysed by geographical markets during the Relevant Periods is presented below:

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
PRC	14,514	80,413	8,647	208,747
USA	18,332	40,889	17,464	52,582
Others	2,273	759	—	420
	<u>35,119</u>	<u>122,061</u>	<u>26,111</u>	<u>261,749</u>

The carrying amount of segment assets and capital expenditure, which represent additions to property, plant and equipment, analysed by geographical markets is presented below:

	Segment assets		
	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
PRC	29,736	75,702	221,522
USA	4,477	9,374	56,560
Unallocated	25,360	61,220	19,503
	<u>59,573</u>	<u>146,296</u>	<u>297,585</u>

	Capital expenditure			
	Year ended		Six months ended	
	31 December		30 June	
	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
PRC	3,363	15,605	1,095	15,142
USA	58	112	91	61
	<u>3,421</u>	<u>15,717</u>	<u>1,186</u>	<u>15,203</u>

7. Revenue and gains

	Year ended		Six months ended	
	31 December		30 June	
	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Revenue - turnover				
Online game revenue	35,119	122,061	26,111	261,749
Other revenue and gains				
Game development fee	2,963	2,157	270	—
Government grants	470	590	360	220
Bank interest income	392	614	138	851
Fair value gain on investment in trading securities	—	383	152	104
Others	<u>1,125</u>	<u>1,929</u>	<u>795</u>	<u>155</u>
	<u>4,950</u>	<u>5,673</u>	<u>1,715</u>	<u>1,330</u>
	<u>40,069</u>	<u>127,734</u>	<u>27,826</u>	<u>263,079</u>

Government grants were received from the PRC government for subsidising the Group in conducting projects relating to software or technology development. There are no unfulfilled conditions or contingencies relating to these grants.

8. Operating (loss)/profit

The Group's operating (loss)/profit is arrived at after charging the following items:

	Year ended		Six months ended	
	31 December		30 June	
	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Auditors' remuneration	718	718	366	368
Depreciation of property, plant and equipment	3,958	4,457	1,934	3,569
Operating lease charges on:				
- land and buildings	2,358	2,182	1,000	1,206
- computer equipment	2,927	5,361	1,634	5,264
Development costs (note (i))	15,464	12,835	5,463	13,137
Staff costs (note (ii))	28,808	26,812	11,823	25,430
Net foreign exchange losses	152	212	19	353
Write off of property, plant and equipment	517	795	—	—
Loss on disposal of property, plant and equipment	112	466	8	20
Impairment on trade receivables	<u>2</u>	<u>416</u>	<u>379</u>	<u>347</u>

Notes:

- (i) Development costs mainly comprise depreciation of property, plant and equipment of RMB896,000, RMB164,000, RMB90,000 and RMB47,000 for the years ended 31 December 2005 and 2006 and the six months ended 30 June 2006 and 2007, respectively, and staff costs of RMB13,958,000, RMB12,171,000, RMB5,362,000 and RMB12,943,000 for the years ended 31 December 2005 and 2006 and the six months ended 30 June 2006 and 2007, respectively, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the respective years / periods.
- (ii) Breakdown of staff costs, including directors' remuneration, is as follows:

	Year ended		Six months ended	
	31 December		30 June	
	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Wages, salaries and bonus	24,043	22,565	9,790	21,931
Welfare, medical and other benefits	2,177	1,989	946	1,734
Contribution to pension plans	<u>2,588</u>	<u>2,258</u>	<u>1,087</u>	<u>1,765</u>
	<u>28,808</u>	<u>26,812</u>	<u>11,823</u>	<u>25,430</u>

9. Financial results and financial assets and liabilities by category of financial instruments

Financial results by category

Net gains/(losses) from financial assets and financial liabilities by category of financial instruments are set out below:

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Available-for-sale financial asset	54	—	—	—
Financial assets at fair value through profit or loss held for trading	—	383	152	104
Loans and receivables	(2)	(416)	(379)	(347)
Net amounts reported in the consolidated income statements	<u>52</u>	<u>(33)</u>	<u>(227)</u>	<u>(243)</u>

Financial assets by category

The carrying amount of the Group's financial assets by category of financial instruments included in the consolidated balance sheets and the headings in which they are included are as follows:

	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Non-current assets			
Available-for-sale financial asset	4,000	4,000	4,000
Current assets			
Financial assets at fair value through profit or loss held for trading			
- Investment in trading securities	4,599	851	453
Loans and receivables			
- Trade and other receivables	9,953	40,354	45,513
- Amounts due from related parties	<u>5,530</u>	<u>11,357</u>	<u>3,293</u>
	<u>24,082</u>	<u>56,562</u>	<u>53,259</u>

Financial liabilities by category

The carrying amount of the Group's financial liabilities by category of financial instruments included in the consolidated balance sheets and the headings in which they are included are as follows:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Financial liabilities measured at amortised cost			
- Trade and other payables	17,103	37,910	54,145
- Amounts due to related parties	<u>2,156</u>	<u>725</u>	<u>669</u>
	<u>19,259</u>	<u>38,635</u>	<u>54,814</u>

10. Remuneration of directors and five highest paid individuals**(i) Directors' remuneration**

The aggregate amount of remuneration paid and payable to the directors of the Company by the Group during the Relevant Periods are as follows:

	Year ended 31 December 2005				
	Salaries and Discretionary			Contribution to pension plans	Total
	Fees	allowances	bonus		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors					
Mr Liu Dejian	—	303	—	—	303
Mr Liu Luyuan	—	132	—	4	136
Mr Zheng Hui	—	58	—	4	62
Mr Chen Hongzhan	—	173	—	4	177
Non-executive directors					
Mr Lin Dongliang	—	—	—	—	—
Mr Zhu Xinkun	—	—	—	—	—
Independent non-executive directors					
Mr Chao Guowei, Charles	—	—	—	—	—
Mr Lee Kwan Hung	—	—	—	—	—
Mr Liu Sai Keung, Thomas	—	—	—	—	—
	<u>—</u>	<u>666</u>	<u>—</u>	<u>12</u>	<u>678</u>

Year ended 31 December 2006

	Contribution				
	Salaries and Discretionary		to pension		
	Fees	allowances	bonus	plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr Liu Dejian	—	874	—	—	874
Mr Liu Luyuan	—	131	—	4	135
Mr Zheng Hui	—	65	—	—	65
Mr Chen Hongzhan	—	209	—	4	213
Non-executive directors					
Mr Lin Dongliang	—	—	—	—	—
Mr Zhu Xinkun	—	—	—	—	—
Independent non-executive directors					
Mr Chao Guowei, Charles	—	—	—	—	—
Mr Lee Kwan Hung	—	—	—	—	—
Mr Liu Sai Keung, Thomas	—	—	—	—	—
	—	1,279	—	8	1,287

Six months ended 30 June 2006 (unaudited)

	Contribution				
	Salaries and Discretionary		to pension		
	Fees	allowances	bonus	plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr Liu Dejian	—	336	—	—	336
Mr Liu Luyuan	—	67	—	3	70
Mr Zheng Hui	—	34	—	—	34
Mr Chen Hongzhan	—	88	—	2	90
Non-executive directors					
Mr Lin Dongliang	—	—	—	—	—
Mr Zhu Xinkun	—	—	—	—	—
Independent non-executive directors					
Mr Chao Guowei, Charles	—	—	—	—	—
Mr Lee Kwan Hung	—	—	—	—	—
Mr Liu Sai Keung, Thomas	—	—	—	—	—
	—	525	—	5	530

Six months ended 30 June 2007					
	Contribution				
	Salaries and Discretionary			to pension	
	Fees	allowances	bonus	plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr Liu Dejian	—	614	—	—	614
Mr Liu Luyuan	—	173	—	2	175
Mr Zheng Hui	—	75	—	2	77
Mr Chen Hongzhan	—	227	—	3	230
Non-executive directors					
Mr Lin Dongliang	—	—	—	—	—
Mr Zhu Xinkun	—	—	—	—	—
Independent non-executive directors					
Mr Chao Guowei, Charles	—	—	—	—	—
Mr Lee Kwan Hung	—	—	—	—	—
Mr Liu Sai Keung, Thomas	—	—	—	—	—
	—	1,089	—	7	1,096

During the Relevant Periods, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

(ii) *Five highest paid individuals*

The five highest paid individuals consisted of two, one, one and two directors for the years ended 31 December 2005 and 2006 and the six months ended 30 June 2006 and 2007, respectively, details of whose remuneration are set out above. Details of the remuneration of the remaining three, four, four and three highest paid individuals for the years ended 31 December 2005 and 2006 and the six months ended 30 June 2006 and 2007, respectively, are as follows:

	Year ended 31 December		Six months ended 30 June	
	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
			(unaudited)	
Salaries and allowances	1,251	2,244	1,015	1,046
Discretionary bonus	—	—	—	—
Contribution to pension plans	—	—	—	—
	1,251	2,244	1,015	1,046

The remuneration paid to each of the above non-director individuals during the Relevant Periods fell within the band of nil to RMB1,000,000.

11. Income tax (credit)/expense

The major components of income tax (credit)/expense for the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Current tax				
- PRC (note (i))	—	1,446	—	17,875
- USA (note (ii))	356	1,267	852	157
	356	2,713	852	18,032
Deferred income tax (note 24)	(2,077)	5,845	648	147
Income tax (credit)/expense	(1,721)	8,558	1,500	18,179

Notes:

- (i) PRC enterprise income tax ("EIT") is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

TQ Digital is a foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 29 July 2005. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) issued by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) on 29 March 1994, TQ Digital is entitled to a preferential income tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise on 16 August 2007. On 25 December 2003, TQ Digital was approved to be a software enterprise. Pursuant to the Circular on the Tax Policies for Encouraging the Development of Software and Integrated Circuit Industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知) issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the General Administration of Customs (海關總署) on 22 September 2000, TQ Digital is entitled to tax benefits of tax exemption for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by 50% tax reduction for three years. 2003 was the first profitable year for TQ Digital. Accordingly, the EIT tax rate applicable to TQ Digital during the Relevant Periods was 7.5%.

NetDragon (Fujian) continued to be recognised as a hi-tech enterprise located in high technology industrial development zone on 9 November 2004. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) as mentioned in the previous

paragraph, NetDragon (Fujian) was entitled to paying EIT at the reduced tax rate of 15% for 2005 and 2006. Pursuant to a notice issued by a government authority (福建省科學技術廳) on 16 August 2007, NetDragon (Fujian) continued to be recognised as a hi-tech enterprise and is thereby subject to EIT tax rate of 15% for the period ended 30 June 2007.

NetDragon (Shanghai) is subject to EIT tax rate of 33%.

No provision for EIT has been made for the year ended 31 December 2005 and six months ended 30 June 2006 as TQ Digital, NetDragon (Fujian) and NetDragon (Shanghai) either did not derive assessable income in the PRC or had tax loss available for offsetting against the assessable income derived in the PRC in the relevant year.

- (ii) The USA income tax rates applicable to the Group are 34% for federal income tax and 8.84% for state income tax.
- (iii) The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and BVI during the Relevant Periods. Provision for Hong Kong profits tax is not made as the Group does not derive any assessable profits in Hong Kong during the Relevant Periods.

A reconciliation of income tax (credit)/expense and accounting profit/(loss) at applicable tax rates is as follows:

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
(Loss)/Profit before income tax	<u>(30,921)</u>	<u>51,543</u>	<u>(1,280)</u>	<u>172,266</u>
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	(3,848)	8,426	455	26,096
Tax exemptions	—	(2,790)	—	(9,861)
Tax effect of non-taxable income	(35)	(81)	(24)	(15)
Tax effect of non-deductible expenses	2,194	2,917	1,146	2,004
Others	<u>(32)</u>	<u>86</u>	<u>(77)</u>	<u>(45)</u>
Income tax (credit)/expense	<u>(1,721)</u>	<u>8,558</u>	<u>1,500</u>	<u>18,179</u>

12. Dividends

Dividends were paid or declared by the Company and NetDragon (BVI) during the Relevant Periods:

- (a) Part of the dividend declared by NetDragon (BVI) in respect of year 2004 amounting to RMB3,465,000 was paid to the then equity holders in 2005.
- (b) On 3 February 2007, NetDragon (BVI) declared a special dividend of RMB44,839,000 to its then equity holders.
- (c) On 20 June 2007, NetDragon (BVI) declared a special dividend of RMB34,230,000 to the Company. On the same date, the Company declared the same amount of dividend to its equity holders who are effectively the then equity holders of NetDragon (BVI).

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

13. (Loss)/Earnings per share

The calculation of (loss)/earnings per share attributable to the equity holders of the Company is calculated based on consolidated (loss)/profit attributable to the equity holders of the Company of each of the Relevant Periods and the weighted average number of 400,407,860, 400,407,860, 400,407,860 and 442,220,015 shares for the years ended 31 December 2005 and 2006 and the six months ended 30 June 2006 and 30 June 2007, respectively, assuming the capitalisation issue of the Company as detailed in note 28(iii) occurred as at 1 January 2005.

14. Property, plant and equipment

	Leasehold improvements	Computer and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:				
At 1 January 2005	892	17,019	956	18,867
Additions	13	3,273	135	3,421
Disposals	—	(1,082)	(337)	(1,419)
At 31 December 2005 and 1 January 2006	905	19,210	754	20,869
Additions	680	13,698	1,339	15,717
Disposals	—	(4,098)	(619)	(4,717)
At 31 December 2006 and 1 January 2007	1,585	28,810	1,474	31,869
Additions	318	13,013	1,872	15,203
Disposals	—	(46)	—	(46)
At 30 June 2007	<u>1,903</u>	<u>41,777</u>	<u>3,346</u>	<u>47,026</u>
Accumulated depreciation:				
At 1 January 2005	239	3,258	223	3,720
Charge for the year	169	3,635	154	3,958
Disposals	—	(360)	(187)	(547)
At 31 December 2005 and 1 January 2006	408	6,533	190	7,131
Charge for the year	262	4,059	136	4,457
Disposals	—	(2,624)	(306)	(2,930)
At 31 December 2006 and 1 January 2007	670	7,968	20	8,658
Charge for the period	165	3,149	255	3,569
Disposals	—	(16)	—	(16)
At 30 June 2007	<u>835</u>	<u>11,101</u>	<u>275</u>	<u>12,211</u>
Net carrying amount:				
At 31 December 2005	<u>497</u>	<u>12,677</u>	<u>564</u>	<u>13,738</u>
At 31 December 2006	<u>915</u>	<u>20,842</u>	<u>1,454</u>	<u>23,211</u>
At 30 June 2007	<u>1,068</u>	<u>30,676</u>	<u>3,071</u>	<u>34,815</u>

15. Interest in an associate

	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Unlisted equity investment, at cost	<u>430</u>	<u>—</u>	<u>—</u>

The associate has not carried out any business activity since its incorporation in 2005 and it was dissolved in 2006. Particulars of the associate at 31 December 2005 are as follows:

Name	Particulars of issued capital	Place of incorporation	Percentage of interest held by the Group	Principal activity
福州易凱瑞網路資訊技術有限公司	RMB1,000,000	PRC	43%	Dormant

The following table illustrates the summarised financial information of the associate extracted from its management accounts for the year ended 31 December 2005:

	RMB'000
Assets	1,000
Liabilities	—
Revenue	—
Profit	<u>—</u>

16. Available-for-sale financial asset/Investment in trading securities

	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Unlisted equity investment — PRC	4,000	4,000	4,000
Unlisted debt securities — USA	<u>4,599</u>	<u>851</u>	<u>453</u>
	<u>8,599</u>	<u>4,851</u>	<u>4,453</u>
Represented by:			
Available-for-sale financial asset	4,000	4,000	4,000
Investment in trading securities	<u>4,599</u>	<u>851</u>	<u>453</u>
	<u>8,599</u>	<u>4,851</u>	<u>4,453</u>

The unlisted equity investment represents 9.5% interest in 福建楊振華 851生物科技股份有限公司 which was established in the PRC. The entity is a related party to the Group because Mr Liu Dejian and Mr Zheng Hui, directors of the Company, are directors of the entity and Ms Lin Yun, a beneficial owner of the Company, has equity interest in the entity. The unlisted debt securities represent bonds and certificate of deposits issued by U.S. corporations.

The available-for-sale financial asset is denominated in RMB while the trading securities are denominated in US\$.

The available-for-sale financial asset is stated at cost less impairment because the directors are of the opinion that its fair value cannot be measured reliably.

The fair values of the unlisted trading securities which are classified as held for trading are determined by discounting their expected future cash flows at market rate.

The debt securities bear interest at fixed rates ranging from 4.0% to 4.5% as at 31 December 2005 and 4.2% to 4.5% as at 31 December 2006 and 30 June 2007. The debt securities as at 31 December 2005 matured between 7 April 2006 and 21 September 2007 while the debt securities as at 31 December 2006 and 30 June 2007 matured between 10 May 2007 and 21 September 2007.

17. Trade and other receivables

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (note (i))	1,131	6,200	22,664
Other receivables (note (ii))	2,206	18,837	2,931
Deposits and prepayments	<u>6,616</u>	<u>15,317</u>	<u>19,918</u>
	<u>9,953</u>	<u>40,354</u>	<u>45,513</u>

Notes:

- (i) The ageing analysis of trade receivables as at 31 December 2005, 31 December 2006 and 30 June 2007, based on the invoice date, is as follows:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ages:			
— 30 days or below	970	5,764	21,110
— 31 - 60 days*	32	33	1,173
— 61 - 90 days*	22	24	20
— 91 - 180 days*	27	162	56
— 181 - 365 days*	80	144	99
— Over 365 days*	—	73	206
	<u>1,131</u>	<u>6,200</u>	<u>22,664</u>

* past due but not impaired

The Group allows an average credit period ranged from 30 days to 45 days to its trade debtors but the trade debtors usually settle the outstanding balance within 30 days from the billing date.

- (ii) Included in other receivables as at 31 December 2006 was a balance of RMB14,500,000 placed with a PRC entity, Guolun Holdings Limited (高能控股有限公司), for providing asset management services to the Group pursuant to an agreement signed on 12 December 2006 (the "Asset Management Agreement"). On 27 May 2007, TQ Digital entered into an agreement with Mr Liu Dejian, one of the executive directors and beneficial owner of the Company, to dispose its rights underlying the Asset Management Agreement at a consideration of RMB14.5 million. The director is required to settle the consideration within 30 days from the date of the agreement. The balance was settled by the director on 13 June 2007 and 13 August 2007. Guolun Holdings Limited (高能控股有限公司) has not utilised any amounts under the Asset Management Agreement to purchase any investments during the term of the Asset Management Agreement.
- (iii) Trade and other receivables are interest-free and unsecured. The directors consider that the carrying amounts of trade and other receivables approximate their fair values.
- (iv) Included in trade and other receivables are the following amounts denominated in a currency other than RMB:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
US Dollars	<u>1,121</u>	<u>2,125</u>	<u>2,831</u>

18. Cash and cash equivalents

	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Cash on hand and at bank	14,018	60,810	171,402
Cash deposited with an online payment service provider (note (i))	<u>1,259</u>	<u>5,512</u>	<u>35,004</u>
	<u>15,277</u>	<u>66,322</u>	<u>206,406</u>

Notes:

- (i) Cash deposited with the online payment service provider could be readily withdrawn by the Group. The accounts maintained with this online payment service provider were held on trust by the directors of NetDragon (USA) on behalf of the Group for the exclusive use of accepting online payment from customers. Subsequent to the Relevant Periods, the Group has set up a corporate account with the online payment service provider which is owned by and under the name of NetDragon (USA) and all the funds held by the directors of NetDragon (USA) on behalf of NetDragon (USA) have been transferred to the corporate account.
- (ii) As at 31 December 2005 and 2006 and 30 June 2007, cash and cash equivalents of the Group denominated in RMB amounted to RMB7,164,000, RMB23,553,000 and RMB144,095,000 respectively. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.
- (iii) Cash deposited with banks bear interest at effective interest rates ranging from 0.6% to 3.7% per annum during the Relevant Periods. Cash deposited with the online payment service provider bears interest at effective interest rates ranging from 2.5% to 4.7% per annum during the Relevant Periods.
- (iv) Included in cash and cash equivalents in the consolidated balance sheets are the following amounts denominated in a currency other than RMB:

	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
US Dollars	<u>8,113</u>	<u>42,769</u>	<u>62,311</u>

- (v) The directors consider that the carrying amounts of cash equivalents approximate their fair values.

19. Trade and other payables

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (note (i))	107	83	229
Accrued staff costs	4,674	5,515	6,041
Value added tax payables and other tax payables	3,061	9,794	14,068
Other payables and accrued charges	6,878	13,925	21,907
Deferred income	<u>2,383</u>	<u>8,593</u>	<u>11,900</u>
	<u>17,103</u>	<u>37,910</u>	<u>54,145</u>

Notes:

- (i) The ageing analysis of trade payables as at 31 December 2005, 31 December 2006 and 30 June 2007, based on the invoice date, is as follows:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ages:			
— Within 90 days	26	1	146
— 91 - 180 days	—	—	—
— 181 - 365 days	1	1	—
— Over 365 days	<u>80</u>	<u>81</u>	<u>83</u>
	<u>107</u>	<u>83</u>	<u>229</u>

- (ii) The directors consider that the carrying amounts of trade and other payables approximate their fair values.
- (iii) Included in trade and other payables are the following amounts denominated in a currency other than RMB:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
US Dollars	<u>7,769</u>	<u>17,845</u>	<u>18,348</u>

20. Amount due from a subsidiary

The amount due is unsecured, interest free and repayable on demand. The directors consider that the carrying amount of the balance approximates its fair value.

21. Share capital

(a) Company

	Share capital			Nominal value US\$ RMB'000	
	Number of common shares of US\$0.01 each	Number of preferred shares of US\$0.01 each	Total number of shares of US\$0.01 each		
Authorised:					
At the date of incorporation and at 31 December 2005 and 2006					
(note (i))	50,000,000	3,000,000	53,000,000	530,000	4,388
Increase in authorised share capital (note (iii))	450,000,000	27,000,000	477,000,000	4,770,000	36,740
At 30 June 2007	<u>500,000,000</u>	<u>30,000,000</u>	<u>530,000,000</u>	<u>5,300,000</u>	<u>41,128</u>
Issued:					
At the date of incorporation (note (i))	1	—	1	—	—
Issue of new shares (note (ii))	14,878,936	2,666,666	17,545,602	175,456	1,453
At 31 December 2005 and 2006	14,878,937	2,666,666	17,545,603	175,456	1,453
Issue of new shares (note (iv))	4,674,790	—	4,674,790	46,748	360
Issue of new shares (note (v))	19,553,727	2,666,666	22,220,393	222,204	1,693
At 30 June 2007	<u>39,107,454</u>	<u>5,333,332</u>	<u>44,440,786</u>	<u>444,408</u>	<u>3,506</u>

Notes:

- (i) The Company was incorporated on 29 July 2004 with an authorised share capital of US\$530,000 divided into 50,000,000 common shares of US\$0.01 each and 3,000,000 preferred shares of US\$0.01 each. Upon incorporation, one common share was allotted and issued at par to a shareholder.
- (ii) On 15 December 2004, 14,878,936 common shares of US\$0.01 each and 2,666,666 preferred shares of US\$0.01 each were issued and allotted at par value.
- (iii) On 1 March 2007, the authorised share capital of the Company was increased from US\$530,000 divided into 50,000,000 common shares of US\$0.01 each and 3,000,000 preferred shares of US\$0.01 each to US\$5,300,000 divided into 500,000,000 common shares of US\$0.01 each and 30,000,000 preferred shares of US\$0.01 each by issuing additional 450,000,000 common shares of US\$0.01 each and 27,000,000 preferred shares of US\$0.01 each.
- (iv) On 26 March 2007, an aggregate of 4,674,790 common shares of US\$0.01 each were allotted and issued at par by the Company.

- (v) On 18 May 2007, an aggregate of 19,553,727 common shares of US\$0.01 each and 2,666,666 preferred shares of US\$0.01 were allotted and issued at par by the Company pursuant to the Shares Swap as detailed in note 1.

(b) Group

For the purpose of this report, the share capital of the Group as at 31 December 2005 and 2006 represented the paid up capital of NetDragon (BVI). Upon the formation of the Group on 18 May 2007 as a result of the Shares Swap which took place on the same date, the Company becomes the holding company of the Group and the share capital of the Group as at 30 June 2007 represented the share capital of the Company.

22. Reserves

(a) Company

The reserve of the Company represents contributed surplus which is the difference between the investment cost of NetDragon (BVI) and the nominal value of the shares issued by the Company pursuant to the Shares Swap as detailed in note 1.

(b) Group

(i) Share premium

On 10 January 2007, an aggregate of 2,200,000 common shares of US\$0.01 each of NetDragon (BVI) were allotted and issued at a consideration of US\$4.14 per share to the new investors of NetDragon (BVI), giving rise to additional share capital to the Group (the share capital of the Group before the Shares Swap taking place on 18 May 2007 represented the share capital of NetDragon (BVI)) of US\$22,000 (equivalent to approximately RMB170,000) and share premium of US\$9,086,000 (equivalent to approximately RMB69,984,000). As at 31 December 2006, capital of approximately RMB21,755,000 was received in advance from certain of the new investors.

Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), the share premium account can be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the Company to be issued to members as fully paid bonus shares; (c) the redemption and repurchases of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of share or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company. No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

Capital reserve arose on combining the results and financial positions of the companies now comprising the Group using merger accounting and following the presentation basis as explained in note 1.

As mentioned in note 1, the Group does not have equity interest in NetDragon (Fujian) and NetDragon (Shanghai) and their results and financial positions are consolidated with that of the Group by virtue of the Structure Contracts. The combined capital of NetDragon (Fujian) and NetDragon (Shanghai) less the amount of capital of NetDragon (Fujian) shared by the minority shareholders is thereby included in capital reserve of the Group.

As at 31 December 2005 and 2006, the Shares Swap had not yet taken place and the share capital of the Company was included in capital reserve of the Group. As at 30 June 2007, the Shares Swap had already taken place and accordingly, the amount of capital reserve of the Group as at 30 June 2007 was reduced to RMB9,946,000 which only included the combined capital of NetDragon (Fujian) and NetDragon (Shanghai) less the amount of the capital of NetDragon (Fujian) shared by the minority shareholders.

(iii) *Statutory reserves*

In accordance with the relevant laws and regulations in the PRC and the articles of association of NetDragon (Fujian), NetDragon (Fujian) is required to appropriate 10% and 5%-10% of its profit after tax after setting off the accumulated losses brought forward from prior years, as determined in accordance with PRC accounting regulations, to the statutory surplus reserve (the "SSR") and the statutory public welfare fund reserve (the "SPWF") respectively. When the balance of SSR reaches 50% of the registered capital of NetDragon (Fujian), any further appropriation is optional. The SSR may be used to make good previous years' losses, if any, and may be converted to increase paid-up capital of the respective entities, provided the remaining balance after the capitalisation is not less than 25% of the registered capital. The SPWF could be used for capital expenditure on staff welfare facilities.

No allocation to the SPWF is required for NetDragon (Fujian) from 1 January 2006 due to the revised laws and regulations in the PRC. The unutilised SPWF of NetDragon (Fujian) as at 31 December 2005 was transferred to SSR in 2006.

In accordance with the relevant laws and regulations concerning foreign investment enterprise established in the PRC and the articles of association of TQ Digital, TQ Digital is also required to appropriate certain portion of its profits after tax after setting off the accumulated losses brought forward from prior years, as determined in accordance with PRC accounting regulations, to reserve fund and staff's and workers' bonus and welfare fund. The amount of appropriation is determined by the board of directors of TQ Digital except for the appropriation of 10% of the net profit to the reserve fund which is mandatory until the accumulated total of the fund reaches 50% of registered capital of TQ Digital. The usage of reserve fund and staff's and workers' bonus and welfare fund are similar to that of SSR and SPWF respectively.

The above reserves cannot be used for purposes other than those for which they are created and are non-distributable as cash dividends.

(c) **Distributable reserve**

The amount of reserve available for distribution to the equity shareholders of the Company was nil, nil, and RMB166,178,000 respectively as at 31 December 2005, 31 December 2006 and 30 June 2007.

23. Related party transactions

Except as disclosed elsewhere in this report, the Group and Company have the following transactions with the following related parties during the Relevant Periods:

(i) Name of and relationship with the related parties

Name of related parties	Relationship
Mr Liu Dejian	Executive director and beneficial owner of the Company
Mr Liu Luyuan	Executive director and beneficial owner of the Company
Mr Liu Ming	A close family member of Mr Liu Dejian
Mr Zheng Hui	Executive director and beneficial owner of the Company
Mr Chen Hongzhan	Executive director and beneficial owner of the Company
Ms Lin Yun	Beneficial owner of the Company and key management
Mr Wu Chak Man	Beneficial owner of the Company and key management
Mr Chen Feng	Beneficial owner of the Company and key management
Mr Wu Jialiang	Beneficial owner of the Company and key management
福建楊振華 851 生物工程技術研究開發有限公司	Mr Liu Dejian has equity interest in this entity
福州天亮網絡技術有限公司	Mr Zheng Hui, Mr Wu Jialiang and Mr Chen Hongzhan have equity interests in this entity
Beso Biological Research Inc.	This entity is wholly owned by a close family member of Mr Liu Dejian and Mr Liu Luyuan
DJM Holding Ltd.	A shareholder of the Company in which Mr Liu Dejian has equity interest
Richmedia Holdings Limited	A shareholder of the Company in which Mr Liu Luyuan has equity interest
IDG Technology Venture Investments, L.P.	A shareholder of the Company

(ii) Significant related party transactions during the Relevant Periods

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Rentals paid to:				
— 福建楊振華 851				
— 生物工程技術研究開發有限公司	310	285	140	135
— Beso Biological Research Inc.	257	265	126	124
After-sales service fee paid to:				
— 福州天亮網絡技術有限公司	—	550	—	1,926
Technical service fee paid to:				
— 福州天亮網絡技術有限公司	—	168	—	511

The directors consider that all related party transactions were carried out in the ordinary course of business and on terms agreed between the parties.

(iii) Amounts due from/to related parties as at 31 December 2005, 31 December 2006 and 30 June 2007

Group

	At 1 January 2005	At 31 December 2005	At 31 December 2006	At 30 June 2007
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties:				
— 福建楊振華 851				
— 生物工程技術研究開發有限公司 (note)	—	—	6,891	2,482
— DJM Holding Ltd. (note)	961	961	961	—
— Richmedia Holdings Limited (note)	107	107	107	—
— IDG Technology Venture Investments, L.P.	221	221	221	—
— Mr Liu Dejian (note)	—	—	—	442
— Mr Zheng Hui (note)	1,585	3,243	2,361	—
— Mr Liu Luyuan (note)	15	57	57	57
— Mr Wu Chak Man	1,115	912	—	—
— Mr Chen Hongzhan (note)	—	—	300	312
— Mr Wu Jialiang	—	—	430	—
— Mr Chen Feng	29	29	29	—
	<u>4,033</u>	<u>5,530</u>	<u>11,357</u>	<u>3,293</u>

Note:

Maximum amount due from these related parties during the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
福建楊振華 851 生物工程技術研究開發有限公司	—	6,891	6,891
DJM Holding Ltd.	961	961	961
Richmedia Holdings Limited	107	107	107
Mr Liu Dejian	—	—	442
Mr Zheng Hui	3,243	3,243	2,361
Mr Liu Luyuan	57	57	57
Mr Chen Hongzhan	—	300	312
	<u>—</u>	<u>300</u>	<u>312</u>

	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Amounts due to related parties:			
— 福建楊振華 851 生物工程技術研究開發有限公司	2,006	—	—
— 福州天亮網路技術有限公司	—	574	557
— Mr Liu Dejian	58	58	—
— Mr Liu Ming	8	9	1
— Ms Lin Yun	84	84	84
— Mr Zheng Hui	—	—	27
	<u>2,156</u>	<u>725</u>	<u>669</u>

Company

	At 1 January	At 31 December		At 30 June
	2005	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties:				
— DJM Holding Ltd. (note)	961	961	961	—
— Richmedia Holdings Limited (note)	107	107	107	—
— IDG Technology Venture Investments, L.P.	221	221	221	—
— Mr Zheng Hui (note)	135	135	135	—
— Mr Chen Feng	29	29	29	—
	<u>1,453</u>	<u>1,453</u>	<u>1,453</u>	<u>—</u>

Note:

Maximum amount due from these related parties during the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
DJM Holding Ltd.	961	961	961
Richmedia Holdings Limited	107	107	107
Mr Zheng Hui	<u>135</u>	<u>135</u>	<u>135</u>

The balances are unsecured, interest-free and have no fixed term of repayment. The directors consider that the carrying amounts of the balances approximate their fair values.

All the balances due from related parties were fully settled on or before 17 October 2007.

(iv) Key management remuneration

	Year ended 31 December		Six months ended 30 June	
	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(unaudited)</i>	
Salaries, allowances and other short-term employee benefits	1,670	2,758	1,218	2,034
Contribution to pension plans	<u>14</u>	<u>14</u>	<u>13</u>	<u>13</u>
	<u>1,684</u>	<u>2,772</u>	<u>1,231</u>	<u>2,047</u>

24. Deferred tax assets

The following are the deferred tax assets recognised by the Group and the movements thereon during the Relevant Periods are as follows:

	Tax losses	Development costs	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
A1 1 January 2005	3,090	879	3,969
Credited to consolidated income statement (note 11)	<u>2,023</u>	<u>54</u>	<u>2,077</u>
At 31 December 2005 and 1 January 2006	5,113	933	6,046
Charged to consolidated income statement (note 11)	<u>(4,966)</u>	<u>(879)</u>	<u>(5,845)</u>
At 31 December 2006 and 1 January 2007	147	54	201
Charged to consolidated income statement (note 11)	<u>(147)</u>	<u>—</u>	<u>(147)</u>
At 30 June 2007	<u>—</u>	<u>54</u>	<u>54</u>

The Company had no deferred tax assets/liabilities as at 31 December 2005, 31 December 2006 and 30 June 2007.

25. Capital commitments

At the balance sheet dates, the Group had the following capital commitments:

	At 31 December		At 30 June
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
— acquisition of property, plant and equipment	—	2,471	5,529

The Company had no capital commitments as at 31 December 2005, 31 December 2006 and 30 June 2007.

26. Operating lease commitments

The Group leases its office premises and certain property, plant and equipment under operating lease arrangements. At the balance sheet dates, the Group had committed to make the following future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	At 31 December		At 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Land and buildings</u>			
Within one year	1,899	1,872	2,166
In the second to fifth years	1,888	655	3,085
After five years	—	—	51
	<u>3,787</u>	<u>2,527</u>	<u>5,302</u>
<u>Computer equipment</u>			
Within one year	—	754	1,446
<u>Total</u>			
Within one year	1,899	2,626	3,612
In the second to fifth years	1,888	655	3,085
After five years	—	—	51
	<u>3,787</u>	<u>3,281</u>	<u>6,748</u>

The Company had no operating lease commitments as at 31 December 2005, 31 December 2006 and 30 June 2007.

27. Contingent liabilities

The Group and the Company did not have significant contingent liabilities as at 31 December 2005, 31 December 2006 and 30 June 2007.

28. Subsequent events

Save as disclosed elsewhere in this report, the following significant events have taken place subsequent to 30 June 2007 and up to the date of this report:

- (i) On 15 October 2007, the total number of preferred shares of the Company outstanding of 5,333,332 shares of US\$0.01 each were converted into 5,333,332 common shares of US\$0.01 each.

- (ii) on 15 October 2007, the authorised share capital of the Company decreased from US\$5,300,000 to US\$5,000,000 by the cancellation of 30,000,000 preferred shares and then the authorised share capital of the Company increased from US\$5,000,000 to US\$10,000,000 by the creation of 500,000,000 shares of US\$0.01 each.
- (iii) Pursuant to the written resolutions of the Company passed on 15 October 2007, 399,967,074 shares of the Company will be allotted and issued, credited as fully paid at par of US\$0.01 each to the then shareholder of the Company, by the capitalisation of the sum of US\$3,999,671 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the Stock Exchange.

Save as aforesaid, no other significant event took place subsequent to 30 June 2007.

29. Subsequent financial statements

No audited financial statements have been prepared by the Group, Company or any of its subsidiaries in respect of any period subsequent to 30 June 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 7.31 of the GEM Listing Rules, is set out here to provide the prospective investors with further information about how the proposed listing might have affected the financial position of the Group after completion of the International Placing.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the financial position of the Group as at 30 June 2007 or at any future date.

The unaudited pro forma financial information should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following is the unaudited pro forma net tangible assets of the Group which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules to illustrate the effect of the International Placing as if it had taken place on 30 June 2007. The unaudited pro forma net tangible assets has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the Group's financial position following the International Placing.

This statement is based on the audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2007 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, after giving effect to the pro forma adjustments described in the notes thereto. A narrative description of the pro forma adjustments of the International Placing that are (i) directly attributable to the transaction; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma net tangible assets of the Group is based on a number of assumptions, estimates and uncertainties. The accompanying unaudited pro forma net tangible assets of the Group does not purport to describe the actual financial position of the Group that would have been attained had the International Placing been completed on 30 June 2007. The unaudited pro forma net tangible assets of the Group does not purport to predict the future financial position of the Group:

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2007	Estimated net proceeds from the International Placing	Unaudited pro forma net tangible assets	Unaudited pro forma net tangible assets per Share
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
	<i>(note 1)</i>	<i>(note 2)</i>		<i>(note 3)</i>
Based on 95,600,000 Placing Shares at the Placing Price of HK\$13.18 per Share, being the upper price of the price range	<u>223,716</u>	<u>1,173,908</u>	<u>1,397,624</u>	<u>2.59</u>
Based on 95,600,000 Placing Shares at the Placing Price of HK\$11.18 per Share, being the lower price of the price range	<u>223,716</u>	<u>990,356</u>	<u>1,214,072</u>	<u>2.25</u>

Notes:

1. The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2007 of RMB228,282,000 are translated into Hong Kong Dollars at the exchange rate of HK\$1 to RMB0.98.
2. The estimated net proceeds from the International Placing are based on the Placing Price of HK\$11.18 and HK\$13.18 per Placing Share after deduction of the estimated underwriting fees and related expenses in connection with the International Placing.
3. The calculation of the unaudited pro forma net tangible assets of the Group per Share is based on 540,007,860 Shares in issue after the completion of the International Placing. It has not taken into account any Shares which may fall to be issued upon the exercise of Over-allotment Option or the exercise of the options which may be granted under the Share Option Scheme as detailed in section headed "Share Option Scheme" in Appendix V to this prospectus or any Shares which may be allotted and issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 15 October 2007" in the section headed "Further information about the Company" in Appendix V to this prospectus.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of inclusion in this prospectus received from the reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong:

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton 
均富會計師行

23 October 2007

The Directors
NetDragon Websoft Inc.
Bear Stearns Asia Limited
First Shanghai Capital Limited

Dear Sirs

Accountants' report on the unaudited pro forma financial information to the directors of NetDragon Websoft Inc.

We report on the unaudited pro forma financial information of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages II-1 to II-2 under the heading of "Unaudited pro forma net tangible assets" in Section A of Appendix II of the Company's prospectus dated 23 October 2007 (the "Prospectus") in connection with the proposed listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited by way of international placing (the "Share Offer"). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Share Offer might have affected the relevant financial information presented. The basis of preparation of the unaudited pro forma financial information is set out under the heading of "Unaudited pro forma net tangible assets" in Section A of Appendix II of the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the unaudited pro forma financial information.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards and practices.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of the financial positions of the Group as at 30 June 2007 or any future dates.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully
Grant Thornton
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 August 2007 of the property interests of the Group.



Corporate valuation and consultancy
www.sallmanns.com



22nd Floor, Siu On Centre
188 Lockhart Road
Wan Chai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

23 October 2007

The Board of Directors
NetDragon Websoft Inc.
908, Hutchison House
10 Harcourt Road
Central
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which NetDragon Websoft Inc. (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”) and USA, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 August 2007 (the “date of valuation”).

Our valuations of the property interests represent the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

We have valued the property interest in Group I by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

We have attributed no commercial value to the property interests in Groups II to IV which are leased or to be leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”); the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been, in some instances, provided by the Group with copies of Stated-owned Land Use Rights Certificates, Building Ownership Certificates or tenancy agreements relating to the properties in the PRC and USA. Where possible, we have searched the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company’s PRC legal adviser — Dacheng Law Offices, concerning the validity of the Group’s titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, the United Kingdom, USA and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I — PROPERTY INTEREST OWNED AND OCCUPIED BY THE GROUP IN THE PRC

No. Property	Capital value in existing state as at 31 August 2007 RMB
1. Units 1707 and 2203 Jinyuan Garden located at the west of Liuyibei Road Gulou District Fuzhou City Fujian Province The PRC	1,400,000
Sub-total:	1,400,000

GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP
IN THE PRC

No. Property	Capital value in existing state as at 31 August 2007 RMB
2. Portions of level 1, level 2 and level 3 851 Building No. 58 Hot Spring Branch Road Gulou District Fuzhou City Fujian Province The PRC	No commercial value
3. Hua Quan Building Hot Spring Guesthouse No. 39 Hot Spring Branch Road Gulou District Fuzhou City Fujian Province The PRC	No commercial value

APPENDIX III

PROPERTY VALUATION

No. Property		Capital value in existing state as at 31 August 2007 RMB
4.	Units Nos. 208 and 303 Productivity Promotion Centre No. 8 Xingfa Road Mawei District Fuzhou City Fujian Province The PRC	No commercial value
5.	Unit No. 3501 Zhaofeng Plaza No. 1027 Changning Road Changning District Shanghai The PRC	No commercial value
Sub-total:		<hr/> Nil

GROUP III — PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN USA

No. Property		Capital value in existing state as at 31 August 2007 RMB
6.	Suite 180, 21660 East Copley Dr., Diamond Bar, CA 91765 USA	No commercial value
Sub-total:		<hr/> Nil

GROUP IV — PROPERTY INTEREST INTENDED TO BE RENTED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 August 2007 RMB
7.	New 851 Building No. 58 Hot Spring Branch Road Gulou District Fuzhou City Fujian Province The PRC	No commercial value
		Sub-total: Nil
		Grand-total: 1,400,000

VALUATION CERTIFICATE

GROUP I — PROPERTY INTEREST OWNED AND OCCUPIED BY THE GROUP
IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2007 RMB
1. Units 1707 and 2203 Jinyuan Garden located at the west of Liuyibei Road Gulou District Fuzhou City Fujian Province The PRC	<p>The property comprises 2 residential units on levels 17 and 22 of a 31-storey composite building completed in 1990s.</p> <p>The property has a total gross floor area of approximately 253.21 sq.m.</p> <p>The land use rights of the property were granted for a term expiring on 28 September 2062 for residential use.</p>	The property is currently occupied by the Group for residential purpose.	1,400,000

Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates — Rong Gu Guo Yong (2007) Di Nos. 00282711723 and 00282712003, the land use rights of the property with a total apportioned site area of approximately 20.3 sq.m. were granted to Fujian TQ Digital Inc for a term expiring on 28 September 2062 for residential use.
- Pursuant to 2 Building Ownership Certificates — Rong Fang Quan Zheng R Zi Di Nos. 0729024 and 0730925, the building ownership rights of the property with a total gross floor area of approximately 253.21 sq.m. are held by Fujian TQ Digital Inc.
- Fujian TQ Digital Inc is an indirect wholly-owned subsidiary of the Company.
- Pursuant to 2 Real Estate Sale and Purchase Contracts, the property with a total gross floor area of approximately 253.21 sq.m. was purchased at a total consideration of RMB1,380,000.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - The Company has legally obtained both the state-owned land use rights and building ownership rights of the property, and has the rights to use and occupy the property in accordance with the valid term and usages stipulated by the title certificates;
 - The Company has the rights to transfer, lease, mortgage or otherwise dispose of the property; and
 - The property is not subject to mortgage and any other encumbrances.

VALUATION CERTIFICATE

GROUP II — PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP
IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2007 RMB
2. Portions of level 1, level 2 and level 3 851 Building No. 58 Hot Spring Branch Road Gulou District Fuzhou City Fujian Province The PRC	<p>The property comprises portions of level 1, level 2 and level 3 of a 3-storey office building completed in about 1991.</p> <p>The property has a total lettable area of approximately 803 sq.m.</p> <p>The property is leased to the Group for a term of 3 years commencing from 1 July 2007 and expiring on 30 June 2010 at a total annual rental of RMB270,000 exclusive of water, electricity and telephone charges.</p>	The property is currently occupied by the Group for office and research purposes.	No commercial value

Notes:

- Pursuant to a tenancy agreement (“Tenancy Agreement A”) entered into between Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (the “Lessor”), a connected party of the Company, and Fujian TQ Digital Inc (“Lessee A”) dated 30 May 2007, portions of level 1, level 2 and level 3 of an office building with a total lettable area of approximately 714 sq.m. are leased to Lessee A for a term of 3 years commencing from 1 July 2007 and expiring on 30 June 2010 at an annual rental of RMB240,000 exclusive of water, electricity and telephone charges.
- Pursuant to a tenancy agreement (together with the Tenancy Agreement A collectively named as “Tenancy Agreements”) entered into between Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (the “Lessor”) and Fujian NetDragon Websoft Co., Ltd. (“Lessee B”) dated 30 May 2007, portion of level 1 of an office building with a lettable area of approximately 89 sq.m. is leased to Lessee B for a term of 3 years commencing from 1 July 2007 and expiring on 30 June 2010 at an annual rental of RMB30,000 exclusive of water, electricity and telephone charges.
- Fujian TQ Digital Inc is an indirect wholly-owned subsidiary of the Company.
- Fujian NetDragon Websoft Co., Ltd. is, through certain contracts entered into with Fujian TQ Digital Inc, a member of the Group.
- We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - The Lessor has legally obtained both the State-owned Land Use Rights Certificate and Building Ownership Certificate of the property, and has the rights to lease the property;
 - The Company has the rights to use the property and the actual uses of the property are in compliance with the permitted uses stated in relevant title certificates;
 - The Tenancy Agreements are legal and valid; and
 - The Tenancy Agreements have been registered.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2007 RMB
3. Hua Quan Building Hot Spring Guesthouse No. 39 Hot Spring Branch Road Gulou District Fuzhou City Fujian Province The PRC	The property comprises a 2-storey office building completed in about 1999. The property has a lettable area of approximately 2,000 sq.m. The property is leased to the Group for a term commencing from 21 March 2005 and expiring on 21 March 2008 at a monthly rental of RMB83,300 exclusive of water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a tenancy agreement (“Tenancy Agreement”) entered into between 福建省溫泉賓館 (Hot Spring Hotel of Fujian Province) (the “Lessor”), an independent third party, and Fujian TQ Digital Inc (the “Lessee”) dated 18 March 2005, the property is leased to the Lessee for a term commencing from 21 March 2005 and expiring on 21 March 2008 at a monthly rental of RMB83,300 exclusive of water and electricity charges.
2. Fujian TQ Digital Inc is an indirect wholly-owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - (i) The Lessor has the rights to lease the property;
 - (ii) The Company has the rights to use the property and the actual uses of the property are in compliance with the permitted uses stated in relevant title certificates; and
 - (iii) The Tenancy Agreement is legal and valid.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2007 RMB
4. Units Nos. 208 and 303 Productivity Promotion Centre No. 8 Xingfa Road Mawei District Fuzhou City Fujian Province The PRC	<p>The property comprises 2 office units on level 2 and level 3 of a 9-storey office building completed in about 2002.</p> <p>The property has a total lettable area of approximately 350 sq.m.</p> <p>The property is leased to the Group for a term of 1 year commencing from 1 January 2007 and expiring on 31 December 2007 at a total monthly rental of RMB3,500 exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- Pursuant to a tenancy agreement (“Tenancy Agreement A”) entered into between 福州開發區火炬高新技術創業園有限公司 (Huoju High Technology Growth Enterprise Zone Company Limited of Fuzhou Development Zone) (the “Lessor”), an independent third party, and Fujian TQ Digital Inc (“Lessee A”) dated 1 January 2007, unit no. 208 with a lettable area of approximately 250 sq.m. is leased to Lessee A for a term of 1 year commencing from 1 January 2007 and expiring on 31 December 2007 at a monthly rental of RMB2,500 exclusive of water and electricity charges.
- Pursuant to a tenancy agreement (together with the Tenancy Agreement A collectively named as “Tenancy Agreements”) entered into between 福州開發區火炬高新技術創業園有限公司 (Huoju High Technology Growth Enterprise Zone Company Limited of Fuzhou Development Zone) (the “Lessor”) and Fujian NetDragon Websoft Co., Ltd. (“Lessee B”) dated 1 January 2007, unit no. 303 with a lettable area of approximately 100 sq.m. is leased to Lessee B for a term of 1 year commencing from 1 January 2007 and expiring on 31 December 2007 at a monthly rental of RMB1,000 exclusive of water and electricity charges.
- Fujian TQ Digital Inc is an indirect wholly-owned subsidiary of the Company.
- Fujian NetDragon Websoft Co., Ltd. is, through certain contracts entered into with Fujian TQ Digital Inc, a member of the Group.
- We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - The Lessor has legally obtained the Building Ownership Certificate of the property, and has the rights to lease the property;
 - The Company has the rights to use the property and the actual uses of the property are in compliance with the permitted uses stated in relevant title certificates;
 - The Tenancy Agreements are legal and valid; and
 - The Tenancy Agreements have been registered.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2007 RMB
5. Unit No. 3501 Zhaofeng Plaza No. 1027 Changning Road Changning District Shanghai The PRC	The property comprises an office unit on level 35 of a 42-storey building completed in about 2002. The property has a gross floor area of approximately 257.3 sq.m. The property is leased to the Group for a term of 2 years commencing from 1 August 2006 and expiring on 31 July 2008 at a monthly rental of RMB28,174.4 exclusive of electricity charge.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a tenancy agreement (“Tenancy Agreement”) entered into between 上海多媒體產業園發展有限公司 (Shanghai Multimedia Park Development Co., Ltd.) (the “Lessor”), an independent third party, and Shanghai Tiankun Digital Technology Ltd. (the “Lessee”) dated 21 July 2006, the property is leased to the Lessee for a term of 2 years commencing from 1 August 2006 and expiring on 31 July 2008 at a monthly rental of RMB28,174.4 exclusive of electricity charge.
2. Shanghai Tiankun Digital Technology Ltd. is, through certain contracts entered into with Fujian TQ Digital Inc and Fujian NetDragon Websoft Co., Ltd., a member of the Group.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - (i) The Lessor has legally obtained the Real Estate Title Certificate of the property, and has the rights to lease the property;
 - (ii) The Company has the rights to use the property and the actual uses of the property are in compliance with the permitted uses stated in relevant title certificates; and
 - (iii) The Tenancy Agreement is legal and valid.

VALUATION CERTIFICATE

GROUP III — PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN USA

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2007 RMB
6. Suite 180 21660 East Copley Dr., Diamond Bar, CA 91765 USA	The property comprises an office unit of a 3-storey office building completed in about 1988. The property has a rentable area of approximately 223.52 sq.m. (2,406 sq.ft.)	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- Pursuant to a lease agreement ("Lease Agreement") entered into between Muller-Rock 2 Gateway, LLC and Muller-Ing-Gateway, LLC (the "Lessor"), an independent third party, and NetDragon Websoft Inc., a company incorporated in the State of California, USA ("NetDragon (USA)") (the "Lessee") dated 22 May 2007, the property is leased to the Lessee commencing from 1 August 2007 and expiring on 30 September 2012 at an annual rental of US\$69,292.8 from 1 August 2007 to 31 July 2008, US\$72,180 from 1 August 2008 to 31 July 2009, US\$75,067.2 from 1 August 2009 to 31 July 2010, US\$77,954.4 from 1 August 2010 to 31 July 2011 and US\$81,130.32 from 1 August 2011 to 30 September 2012.
- NetDragon (USA) is a wholly-owned subsidiary of NetDragon Websoft Inc., a company established in BVI.

VALUATION CERTIFICATE

GROUP IV — PROPERTY INTEREST TO BE RENTED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2007 RMB
7. New 851 Building No. 58 Hot Spring Branch Road Gulou District Fuzhou City Fujian Province The PRC	<p>The property comprises an office building to be rented by the Group.</p> <p>The property has a floor area of approximately 4,200 sq.m.</p> <p>The property is to be leased to the Group for a term of 3 years at a monthly rental of RMB36 per sq.m., exclusive of water, electricity and telephone charges.</p>	The property is currently vacant.	No commercial value

Notes:

- Pursuant to a Letter of Intent entered into between Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (the “Lessor”), a connected party of the Company, and Fujian NetDragon Websoft Co., Ltd. (the “Lessee”), the Lessor and Lessee are agreed to lease the property with a floor area of approximately 4,200 sq.m. to the Lessee for a term of 3 years after the property has obtained the Fire Service Acceptance Certificate at a monthly rental of RMB36 per sq.m., exclusive of water, electricity and telephone charges.
- Fujian NetDragon Websoft Co., Ltd. is, through certain contracts entered into with Fujian TQ Digital Inc, a member of the Group.
- We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following:
 - The Lessor has the rights to lease the property after the property has obtained the Fire Service Acceptance Certificate and title certificates; and
 - The Letter of Intent is legal and valid.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 15 October 2007. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be pre-paid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(ix) Proceedings of the Board

The board may meet for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

No powers shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 10 July 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. FURTHER INFORMATION ABOUT THE COMPANY**A. Incorporation**

The Company was established in the Cayman Islands as an exempted company with limited liability on 29 July 2004. The registered office of the Company is situated at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The Company has established a principal place of business in Hong Kong at 908 Hutchison House, 10 Harcourt Road, Central, Hong Kong and was registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance on 18 July 2007. The Company has appointed Tam Hon Shan, Celia as the Company's process agent for the acceptance of service of process in Hong Kong.

B. Changes in share capital and shareholding structure of the Company

The alterations to the share capital and shareholding structure of the Company which have taken place within the two years immediately preceding the date of this prospectus are set out below and in paragraph 1F headed "Group reorganisation" in this appendix:

- (1) on 1 March 2007, the increase of the authorised share capital of the Company from US\$0.53 million (divided into 50,000,000 common Shares and 3,000,000 preferred Shares) to US\$5.3 million (divided into 500,000,000 common Shares and 30,000,000 preferred Shares);
- (2) on 15 October 2007, the conversion of 5,333,332 preferred Shares held by IDG Technology Venture Investments, L.P. into 5,333,332 common Shares; and
- (3) on 15 October 2007, the decrease of the authorised share capital of the Company from US\$5.3 million to US\$5 million by the cancellation of 30,000,000 preferred Shares and the increase of the authorised share capital of the Company from US\$5 million to US\$10 million by the creation of 500 million Shares.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

As at the Latest Practicable Date, our issued share capital was US\$444,407.86 divided into 44,440,786 Shares of US\$0.01 each, which were held and paid up as follows:

Shareholders	Number of Shares	Approximate percentage of shareholding (%)
DJM Holding Ltd.	18,740,260	42.17
Fitter Property Inc.	3,729,872	8.39
Eagle World International Inc.	3,371,292	7.59
Richmedia Holdings Limited	2,684,480	6.04
Cristionna Holdings Limited	1,400,000	3.15
Chen Feng	760,000	1.71
Maincorp Worldwide Ltd.	384,750	0.87
Lilywhites Venture Limited	354,400	0.80
Wu Chak Man	240,000	0.54
Growing Up Capital Inc.	223,400	0.50
Main Shine Company Limited	220,000	0.50
Kellyton International Limited	100,000	0.23
Peony Glory Holding Ltd.	99,000	0.22
IDG Technology Venture Investments, L.P.	5,333,332	12.00
IDG-Accel China Growth Fund L.P.	1,182,110	2.66
IDG Technology Venture Investments, III L.P.	966,184	2.17
IDG-Accel China Growth Fund-A L.P.	241,578	0.54
IDG-Accel China Investors L.P.	110,128	0.25
Happy Sunshine Limited	2,000,000	4.50
SEQUEDGE The First Chinese Equities Fund on Prospective for Listing	1,300,000	2.93
Giant East Investments Ltd.	500,000	1.13
China Venture Capital Company Limited	400,000	0.90
Aura Investment Holdings Limited	50,000	0.11
SACE Investments Limited	50,000	0.11
Total	<u>44,440,786</u>	<u>100.00</u> (note)

Note: Numbers do not add up to 100 percent due to rounding.

Immediately after the completion of the International Placing and the Capitalisation Issue, the authorised share capital of the Company will be US\$10,000,000.00 divided into 1,000,000,000 Shares of US\$0.01 each of which 540,007,860 Shares of US\$0.01 each will be allotted and issued fully paid or credited as fully paid and 459,992,140 Shares will remain unissued. Other than pursuant to (i) the exercise of any option which may be granted under the Share Option Scheme and the Over-allotment Option; or (ii) the general mandates referred to in paragraph 1E in this appendix, the Company has no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of the Shares will be made which would effectively alter the control of the Company.

Save as disclosed above and in paragraph 1F headed “Group reorganisation” in this appendix, there has been no alteration in the share capital of the Company within the two years immediately preceding the date of this prospectus.

C. Changes in share capital of the Company’s subsidiaries

The following alterations in the share capital of the Company’s subsidiaries took place within the two years immediately preceding the date of this prospectus:

NetDragon (BVI)

The following alterations to the share capital and shareholding structure of NetDragon (BVI) have taken place within the two years immediately preceding the date of this prospectus:

- (1) On 10 January 2007, an aggregate of 2,200,000 common shares of US\$0.01 each were allotted and issued at a consideration of US\$4.14 per share to IDG Technology Venture Investment III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P., SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, Giant East Investments Limited, SACE Investments Limited and Aura Investment Holdings Limited.

- (2) On 10 January 2007, 1,000,000 and 200,000 common shares of US\$0.01 each in NetDragon (BVI) were transferred from DJM Holding Ltd. to each of Happy Sunshine Limited and China Venture Capital Company Limited, respectively. The shareholding structures of NetDragon (BVI) immediately before and after such transfers and allotments were as follows:

Shareholders	Number of common shares held before 10 January 2007	(%)	Number of common shares held after 10 January 2007	(%)
DJM Holding Ltd.	10,570,130	60.91	9,370,130	47.92
Zheng Hui	4,271,357	24.61	4,271,357	21.84
Liu Luyuan	1,342,240	7.73	1,342,240	6.86
Cristionna Holdings Limited	700,000	4.03	700,000	3.58
Chen Feng	350,000	2.02	350,000	1.79
Wu Chak Man	120,000	0.69	120,000	0.61
IDG-Accel China Growth Fund L.P.	—	—	591,055	3.02
IDG Technology Venture Investment III, L.P.	—	—	483,092	2.47
IDG-Accel China Growth Fund-A L.P.	—	—	120,789	0.62
IDG-Accel China Investors L.P.	—	—	55,064	0.28
Happy Sunshine Limited	—	—	1,000,000	5.11
SEQUEDGE The First Chinese Equities Fund on Prospective for Listing	—	—	650,000	3.32
Giant East Investments Limited	—	—	250,000	1.28
China Venture Capital Company Limited	—	—	200,000	1.02
Aura Investment Holdings Limited	—	—	25,000	0.13
SACE Investments Limited	—	—	25,000	0.13
	<u>17,353,727</u>	<u>100.00</u> (note)	<u>19,553,727</u>	<u>100.00</u> (note)

Note: Numbers do not add up to 100 percent due to rounding.

Shareholders	Number of preferred shares held before 10 January 2007	(%)	Number of preferred shares held after 10 January 2007	(%)
IDG Technology Venture Investments, L.P.	<u>2,666,666</u>	<u>100.00</u>	<u>2,666,666</u>	<u>100.00</u>

- (3) On 18 May 2007, an aggregate of 19,553,727 common shares of US\$0.01 each in NetDragon (BVI) were transferred by DJM Holding Ltd., Liu Luyuan, Zheng Hui, Chen Feng, Wu Chak Man, Cristionna Holdings Limited, IDG Technology Venture Investment III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors, L.P., SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, Giant East Investments Limited, SACE Investments Limited, Aura Investment Holdings Limited, Happy Sunshine Limited and China Venture Capital Company Limited to the Company, in consideration of the allotment and issue of an aggregate of 19,553,727 Shares by the Company to the above transferors or their nominees.
- (4) On 18 May 2007, 2,666,666 preferred shares in NetDragon (BVI) were transferred by IDG Technology Venture Investments, L.P. to the Company in consideration of the allotment and issue of 2,666,666 preferred Shares by the Company to IDG Technology Venture Investments, L.P.. Immediately after the above share transfers and as at the Latest Practicable Date, NetDragon (BVI) was owned as to 100% by the Company.

Save as disclosed above, there has been no alteration in the share capital of the Company's subsidiaries within the two years preceding the date of this prospectus.

D. Subsidiaries of the Company

(1) Name:	TQ Digital
Date of establishment:	28 February 2003 (converted to a wholly foreign owned enterprise on 28 November 2003)
Place of establishment:	the PRC
Nature:	wholly foreign owned enterprise
Registered capital:	RMB45,000,000
Percentage of equity interest attributable by the Company:	100%
Scope of business:	Sales, research and development of computer softwares; computer networks engineering and information technology services; and repair and maintenance of computers
Term:	from 28 February 2003 to 27 February 2023

(2) Name:	NetDragon (Fujian)
Date of establishment:	25 May 1999
Place of establishment:	the PRC
Nature:	limited liability company
Registered capital:	RMB10,000,000
Percentage of equity interest attributable by the Company:	None
Scope of business:	Provision of computer networks engineering and information technology services; provision of internet information technology services; computer application installation, repair and maintenance; research and development of computer softwares; wholesale of electronic products, hardwares and softwares of computers and related products; design, production, agency and publication of advertisements in the PRC, provision of industry-related technical consultation services, self-running and provision of agency services in respect of the import and export of technology relating to various types of products (other than such technology and products the operation of which by NetDragon (Fujian) is restricted or the import and export of which are prohibited by the PRC government).
Term:	from 25 May 1999 to 25 May 2009
(3) Name:	NetDragon (Shanghai)
Date of establishment:	20 December 2004
Place of establishment:	the PRC
Nature:	limited liability company (domestic joint venture)
Registered capital:	RMB1,000,000
Percentage of equity interest attributable by the Company:	None

Scope of business:	technology development, technology transfer and provision of technical consultation and other services in respect of computer networks, hardwares and softwares of computer and the communication field; sale of related products.
Term:	from 20 December 2004 to 19 December 2024
(4) Name:	NetDragon (BVI)
Date of Incorporation:	8 January 2003
Place of Incorporation:	British Virgin Islands
Nature:	Limited liability company
Particulars of issued and fully paid share capital:	US\$222,203.93 (divided into 19,553,727 common shares of US\$0.01 each and 2,666,666 preferred shares of US\$0.01 each)
Effective interest held by the Company:	100%
Principal Activities:	Investment holding and operation of online games
(5) Name:	NetDragon (USA)
Date of Incorporation:	10 July 2003
Place of Incorporation:	State of California, USA
Nature:	Domestic stock corporation
Particulars of issued common stock	US\$600,000 (divided into 600,000 shares of common stock at US\$1.00 each)
Effective interest held by the Company:	100%
Principal Activities:	Provision of operational support to the Group
(6) Name:	NetDragon (HK)
Date of Incorporation:	28 June 2007
Place of Incorporation:	Hong Kong
Nature:	Limited liability company
Particulars of issued and fully paid share capital:	HK\$1 (divided into 1 share of HK\$1 each)
Effective interest held by the Company:	100%
Principal Activities:	Nil

E. Written resolutions of all the Shareholders passed on 15 October 2007

On 15 October 2007, written resolutions of the Shareholders were passed to approve, inter alia, the following:

- (1) **THAT** the 5,333,332 preferred Shares held by IDG Technology Venture Investments, L.P. be converted into 5,333,332 Shares;
- (2) **THAT** the authorised capital of the Company be decreased from US\$5.3 million to US\$5 million by the cancellation of 30,000,000 preferred Shares and then increased from US\$5 million to US\$10 million by the creation of an additional 500,000,000 Shares;
- (3) **THAT** the Memorandum and the Articles be approved and adopted; and
- (4) **THAT**, conditional upon:
 - (i) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme and the Over-allotment Option);
 - (ii) conditional on the share premium account being credited as a result of the International Placing, the Directors be authorised to capitalise US\$3,999,670.74 standing to the credit of the Company's share premium account towards paying up in full at par 399,967,074 Shares for allotment and issue to holders of Shares whose names appeared on the register of members of the Company at the close of business on 23 October 2007 (or as they may direct) in proportion as nearly as may be without involving fractions to their then existing shareholdings in the Company; and
 - (iii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including as a result of the waiver of any condition(s) thereunder) and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus (or such later date as the Global Coordinator may agree):
 - (a) the International Placing and the Over-allotment Option be approved and the Directors be authorised to allot and issue the Placing Shares and the Shares which may fall to be issued if the Over-allotment Option is exercised;
 - (b) the rules of the Share Option Scheme be approved and adopted, and the Directors be authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;

- (c) a general unconditional mandate be given to the Directors to allot or issue securities of the Company including the Shares and to make or grant offers, agreements or options, including warrants to subscribe for Shares which might require securities to be issued, allotted or disposed of (otherwise than by way of rights or an issue of Shares upon the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares of the Company in lieu of the whole or part of a dividend on Shares in accordance with the Articles or a specific authority granted by the Shareholders in general meeting) with an aggregate nominal value not exceeding 20% of the total nominal value of the share capital of the Company in issue immediately following completion of the International Placing and Capitalisation Issue, such mandate to remain in effect until whichever is the earliest of:
 - (aa) the conclusion of the Company's next annual general meeting;
 - (bb) the expiration of the period within which the Company's next annual general meeting is required by the Articles or applicable law to be held; or
 - (cc) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (d) a general unconditional mandate be given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Company's securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of securities as will represent up to 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the International Placing and the Capitalisation Issue, such mandate to remain in effect until whichever is the earliest of:
 - (aa) the conclusion of the Company's next annual general meeting;
 - (bb) the expiration of the period within which the Company's next annual general meeting is required by the Articles or applicable law to be held; or
 - (cc) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate; and
- (e) the general unconditional mandate mentioned in paragraph (c) above be extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount

representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase securities referred to in paragraph (d) above provided that such extended amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the International Placing and the Capitalisation Issue.

F. Group reorganisation

In preparation for the listing of the Shares on the GEM, the companies comprising the Group underwent a reorganisation to rationalise the corporate structure of the Group, which involved the following events and the events set out in paragraph 1B headed “Changes in share capital and shareholding structure of the Company” in this Appendix:

- (1) on 1 March 2007, the increase of the authorised share capital of the Company from US\$0.53 million (divided into 50,000,000 Shares and 3,000,000 preferred Shares) to US\$5.3 million (divided into 500,000,000 Shares and 30,000,000 preferred Shares);
- (2) on 1 March 2007, the transfers of 1,625,380 and 350,000 Shares at par by each of Zheng Hui and Chen Feng to Fitter Property Inc. and Earnstar Trading Limited, respectively;
- (3) on 26 March 2007, the transfer of 2,235,427 Shares at par by DJM Holding Ltd. to Fitter Property Inc.;
- (4) on 26 March 2007, the allotment and issue of an aggregate of 4,674,790 Shares at par by the Company to Richmedia Holdings Limited, Fitter Property Inc., Netpro Enterprise Inc., Cristionna Holdings Limited, IDG Technology Venture Investment III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors, L.P., SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, Giant East Investments Limited, SACE Investments Limited, Aura Investment Holdings Limited, Happy Sunshine Limited and China Venture Capital Company Limited;
- (5) on 1 April 2007, the transfers of 350,000 and 120,000 Shares at par by each of Earnstar Trading Limited and Netpro Enterprise Inc. to Chen Feng and Wu Chak Man, respectively;

APPENDIX V
STATUTORY AND GENERAL INFORMATION

The shareholding structures of the Company immediately before and after such transfers and allotments as set out in paragraphs (3) to (5) above were as follows:

Shareholders	Number of Shares held before 26 March 2007	(%)	Number of Shares held after 1 April 2007	(%)
DJM Holding Ltd.	11,605,557	78.00	9,370,130	47.92
Fitter Property Inc.	1,625,380	10.92	4,271,357	21.84
Richmedia Holdings Limited	1,298,000	8.72	1,342,240	6.86
Cristionna Holdings Limited	—	—	700,000	3.58
Chen Feng	350,000	2.35	350,000	1.79
Wu Chak Man	—	—	120,000	0.61
IDG-Accel China Growth Fund L.P.	—	—	591,055	3.02
IDG Technology Venture Investment III, L.P.	—	—	483,092	2.47
IDG-Accel China Growth Fund-A L.P.	—	—	120,789	0.62
IDG-Accel China Investors, L.P.	—	—	55,064	0.28
Happy Sunshine Limited	—	—	1,000,000	5.11
SEQUEDGE The First Chinese Equities Fund on Prospective for Listing	—	—	650,000	3.32
Giant East Investments Limited	—	—	250,000	1.28
China Venture Capital Company Limited	—	—	200,000	1.02
Aura Investment Holdings Limited	—	—	25,000	0.13
SACE Investments Limited	—	—	25,000	0.13
	<u>14,878,937</u>	<u>100.00</u> (note)	<u>19,553,727</u>	<u>100.00</u> (note)

Note: Numbers do not add up to 100 percent due to rounding.

Shareholders	Number of preferred Shares held before 26 March 2007	(%)	Number of preferred Shares held after 1 April 2007	(%)
IDG Technology Venture Investments, L.P.	<u>2,666,666</u>	<u>100.00</u>	<u>2,666,666</u>	<u>100.00</u>

- (6) on 18 May 2007, the transfer of an aggregate of 19,553,727 shares of US\$0.01 each in NetDragon (BVI) by DJM Holding Ltd., Liu Luyuan, Zheng Hui, Chen Feng, Wu Chak Man, Cristionna Holdings Limited, IDG Technology Venture Investment III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors, L.P., SEQUEDGE The First Chinese Equities Fund on Prospective for Listing, Giant East Investments Limited, SACE Investments Limited, Aura Investment Holdings Limited, Happy Sunshine Limited and China Venture Capital Company Limited to the Company in consideration of the allotment and issue of an aggregate of 19,553,727 Shares by the Company to the above transferors or their nominees and the transfer of 2,666,666 preferred shares of US\$0.01 each in NetDragon (BVI) by IDG Technology Venture Investments, L.P. to the Company in consideration of the allotment and issue of 2,666,666 preferred Shares by the Company to IDG Technology Venture Investments, L.P.;
- (7) on 21 June 2007, the transfer of an aggregate of 1,441,550 Shares at par by Fitter Property Inc. to Chen Feng, Maincorp Worldwide Ltd., Lilywhites Venture Limited, Peony Glory Holding Ltd., Kellyton International Limited, Growing Up Capital Inc. and Main Shine Company Limited, and the transfer of 3,371,292 common Shares by Fitter Property Inc. to Eagle World International Inc. in consideration of the allotment of 1 share of US\$1.00 each by Eagle World International Inc. to Flowson Company Limited. The shareholding structure of the Company immediately after such transfers and the allotments mentioned in paragraph (6) was as follows:

Shareholders	Number of Shares held after 21 June 2007	(%)
DJM Holding Ltd.	18,740,260	47.92
Fitter Property Inc.	3,729,872	9.54
Eagle World International Inc.	3,371,292	8.62
Richmedia Holdings Limited	2,684,480	6.86
Cristionna Holdings Limited	1,400,000	3.58
Chen Feng	760,000	1.94
Maincorp Worldwide Ltd.	384,750	0.98
Lilywhites Venture Limited	354,400	0.91
Wu Chak Man	240,000	0.61
Growing Up Capital Inc.	223,400	0.57
Main Shine Company Limited	220,000	0.56
Kellyton International Limited	100,000	0.26
Peony Glory Holding Ltd.	99,000	0.25
IDG-Accel China Growth Fund L.P.	1,182,110	3.02
IDG Technology Venture Investments, III L.P.	966,184	2.47
IDG-Accel China Growth Fund-A L.P.	241,578	0.62
IDG-Accel China Investors L.P.	110,128	0.28
Happy Sunshine Limited	2,000,000	5.11

Shareholders	Number of Shares held after 21 June 2007	(%)
SEQUEDGE The First Chinese Equities Fund on Prospective for Listing	1,300,000	3.32
Giant East Investments Ltd.	500,000	1.28
China Venture Capital Company Limited	400,000	1.02
Aura Investment Holdings Limited	50,000	0.13
SACE Investments Limited	<u>50,000</u>	<u>0.13</u>
	<u>39,107,454</u>	<u>100.00 (note)</u>

Note: Numbers do not add up to 100 percent due to rounding.

Shareholder	Number of preferred Shares held after 21 June 2007	(%)
IDG Technology Venture Investments, L.P.	<u>5,333,332</u>	<u>100.00</u>

- (8) on 24 August 2007, the transfer of one subscriber Share at par in NetDragon (HK) from Gold Regal Development Limited to NetDragon (BVI);
- (9) on 15 October 2007, the conversion of 5,333,332 preferred Shares held by IDG Technology Venture Investments, L.P. into 5,333,332 Shares;
- (10) on 15 October 2007, the execution of a trust deed by Flowson Company Limited in favour of employees of the Group; and
- (11) on 15 October 2007, the decrease of the authorised share capital of the Company from US\$5.3 million to US\$5 million by the cancellation of 30,000,000 preferred Shares and the increase of the authorised share capital of the Company from US\$5 million to US\$10 million by the creation of 500 million Shares.

G. Repurchase by the Company of its own Shares

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(1) Provisions of the GEM Listing Rules

On the basis of 540,007,860 Shares in issue immediately following completion of the International Placing and the Capitalisation Issue, the Directors would be authorised under a general unconditional mandate given to the Directors pursuant to a written resolution of the Shareholders on 15 October 2007 (the “Repurchase Mandate”) to repurchase up to 54,000,786 Shares during the period in which the Repurchase Mandate remains in force.

(2) Reasons for repurchases

The Directors believe that it is in the best interest of the Company and its shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or its earning per Share or both.

(3) Funding of repurchases

Repurchase pursuant to the Repurchase Mandate would be financed out of funds of the Company legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands. There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(4) Disclosure of interests

None of the Directors and, to the best of their knowledge, having made all reasonable enquires, none of their respective associates, have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to the Company or its subsidiaries. No connected person (as defined in the GEM Listing Rules) has notified the Company that they have a present intention to sell Shares to the Company, or have undertaken not to do so, if the Repurchase Mandate is exercised.

(5) *Directors' undertaking*

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles and the applicable laws and regulations of the Cayman Islands.

(6) *Takeovers Code consequences*

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). As a result, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. Immediately after the completion of the International Placing and the Capitalisation Issue, Liu Dejian, Liu Luyuan and Zheng Hui will be beneficially interested in 278,959,040 Shares, representing 51.66% of the issued share capital of the Company. In the event that the Directors should exercise in full the Repurchase Mandate, the aggregate shareholding of Liu Dejian, Liu Luyuan and Zheng Hui will be increased to approximately 57.40% of the issued share capital of the Company. Accordingly, a mandatory offer under Rule 26 of the Takeovers Code on Liu Dejian, Liu Luyuan and Zheng Hui will not arise as a result of the exercise in full of the Repurchase Mandate. Save as disclosed in this prospectus, the Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

We have not made any repurchases of our own securities in the past six months.

2. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business of the Company) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:

Current contracts

- (1) a cooperation framework agreement (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital and NetDragon (Fujian) agreed to cooperate in the provision of services relating to the online games development for and the operation of the online game business of NetDragon (Fujian);
- (2) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to license its online games softwares for "Eudemons Online" to NetDragon (Fujian) for operation and usage in the PRC in consideration for an initial license fee and a per annum license fee;

- (3) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to license its online games softwares for “Conquer Online” to NetDragon (Fujian) for operation and usage in the PRC in consideration for an initial license fee and a per annum license fee;
- (4) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to licence its online games softwares for “Zero Online” to NetDragon (Fujian) for operation and usage in the PRC in consideration of an initial licence fee and a per annum licence fee;
- (5) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to licence its online games softwares for “Monster & Me” to NetDragon (Fujian) for operation and usage in the PRC in consideration of an initial licence fee and a per annum licence fee;
- (6) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to licence its online games softwares for “Era of Faith” to NetDragon (Fujian) for operation and usage in the PRC in consideration of an initial licence fee and a per annum licence fee;
- (7) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to licence its online games software for “Happiness Q” to NetDragon (Fujian) for operation and usage in the PRC in consideration of an initial licence fee and a per annum licence fee;
- (8) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to licence its online games software for “Piao Miao Online” to NetDragon (Fujian) for operation and usage in the PRC in consideration of an initial licence fee and a per annum licence fee;
- (9) an agreement for cooperation and licence in respect of online games (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to licence its online games software for “Heroes of Might and Magic Online” to NetDragon (Fujian) for operation and usage in the PRC in consideration of an initial licence fee and a per annum licence fee;
- (10) an online games software development service agreement (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to provide online software development service to NetDragon (Fujian) in consideration for a service fee;

- (11) a technical support service agreement (in Chinese) dated 15 October 2007 between TQ Digital and NetDragon (Fujian) pursuant to which TQ Digital agreed to provide technical support services to NetDragon (Fujian) in consideration for a per annum services fee;
- (12) an equity interest pledge agreement (in Chinese) dated 28 September 2007 between TQ Digital, NetDragon (Fujian) and all of the equity holders of NetDragon (Fujian) pursuant to which all such equity holders granted to TQ Digital a continuing first priority security interest over their respective equity interests in the registered capital of NetDragon (Fujian), for the purpose of securing the performance of the contractual obligations by NetDragon (Fujian)'s equity holders under the Structure Contracts;
- (13) an agreement for the exclusive right to acquire equity interest and assets (in Chinese) dated 15 October 2007 between TQ Digital, NetDragon (Fujian) and all of the equity holders of NetDragon (Fujian) pursuant to which NetDragon (Fujian) and all its equity holders granted to TQ Digital or its nominee (a) a right to acquire all or part of the equity interest in the registered capital of NetDragon (Fujian); and (b) a right to acquire all or part of the assets of NetDragon (Fujian) for a consideration being a nominal amount or lowest possible amount permissible under the applicable PRC laws;
- (14) an equity holders' voting rights proxy agreement (in Chinese) dated 15 October 2007 between TQ Digital and all of the equity holders of NetDragon (Fujian) pursuant to which all the equity holders of NetDragon (Fujian) have irrevocably authorised TQ Digital or a nominee designated by TQ Digital to exercise all their voting rights in NetDragon (Fujian);
- (15) a service agreement (in English) dated 1 July 2007 between NetDragon (USA) and NetDragon (Shanghai) pursuant to which NetDragon (Shanghai) would provide various services to NetDragon (USA) in consideration for a flat fee;
- (16) a deed of non-competition (in English) dated 15 October 2007 executed by each of DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Cristionna Holdings Limited, Fuzhou Tianling, Growing Up Capital Inc., Liu Dejian, Zheng Hui, Liu Luyuan, Chen Hongzhan and Wu Jialiang in favour of the Company, for itself and on behalf of other members of the Group, details of which are set out in "Relationship with the Controlling Shareholders and non-competition undertakings - Non-competition undertakings"; and
- (17) a deed of indemnity (in English) dated 22 October 2007 given by DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Cristionna Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan and Chen Hongzhan in favour of the Company, for itself and on behalf of other members of the Group containing the indemnities referred to in "Other information - Estate duty, tax and other indemnities" of this Appendix.

Non-current Contracts

The following contracts have been completed, expired or have been terminated prior to completion of the International Placing:







- (1) an exclusive service agreement (in English) dated 1 July 2005 between NetDragon (USA) and NetDragon (Shanghai) pursuant to which NetDragon (Shanghai) has been appointed as the exclusive provider of customer service for NetDragon (USA) regarding the English version of Conquer Online in consideration for a monthly fee; the agreement was terminated with immediate effect by an exclusive service agreement termination and mutual release agreement (in English) dated 30 June 2007 between NetDragon (USA) and NetDragon (Shanghai);
- (2) an agreement for the acquisition of the entire issued share capital of NetDragon Websoft Inc. (a company incorporated in the British Virgin Islands) (in English) dated 18 May 2007 between the Company and all the then shareholders of NetDragon (BVI) pursuant to which the Company acquired 19,553,727 common shares of US\$0.01 each and 2,666,666 series A preferred shares of US\$0.01 each in NetDragon (BVI) from the then shareholders of NetDragon (BVI) by allotting and issuing an aggregate of 19,553,727 Shares of US\$0.01 each and 2,666,666 preferred Shares of US\$0.01 each in the Company to the relevant shareholders of NetDragon (BVI) and/or their nominees; and
- (3) an online games cooperation memorandum (in Chinese) dated 8 June 2007 between TQ Digital and NetDragon (Fujian) confirming the cooperation arrangements between TQ Digital and NetDragon (Fujian) prior to 1 January 2007.

B. Intellectual property

As at the Latest Practicable Date, the Group was the registered owner of the following domain names in the PRC:

Domain Name	Creation Date	Expiry Date	Subsidiary	Filing of Renewal Application
www.nd.com.cn	18 June 1999	18 June 2008	NetDragon (Fujian)	not yet filed
www.86114.com	28 February 2000	28 February 2010	NetDragon (Fujian)	not yet filed
www.91.com	22 September 1998	21 September 2013	NetDragon (Fujian)	not yet filed
www.tqdigital.com	4 September 2001	4 September 2008	NetDragon (Fujian)	not yet filed
www.tqhl.com	22 January 2003	22 January 2008	NetDragon (Fujian)	not yet filed
www.tqzf.com	30 December 2002	30 December 2007	NetDragon (Fujian)	not yet filed
www.tqxy.com	16 September 2003	16 September 2008	NetDragon (Fujian)	not yet filed
www.tqry.com	4 September 2003	4 September 2008	NetDragon (Fujian)	not yet filed
www.conqueronline.com	28 May 2003	28 May 2011	NetDragon (BVI)	not yet filed
www.monsterandme.com	27 May 2003	27 May 2008	NetDragon (BVI)	not yet filed
www.eudemononline.com	24 April 2006	24 April 2008	NetDragon (BVI)	not yet filed

As at the Latest Practicable Date, the Group was the registered owner of the following trademarks in the PRC:

Trademark	Country of Application	Registration Number	Class	Term of Validity	Subsidiary
	PRC	3706101	41 (<i>Note 1</i>)	21 January 2006 to 20 January 2016	TQ Digital
	PRC	3705590	42 (<i>Note 2</i>)	21 January 2006 to 20 January 2016	TQ Digital
	PRC	3706102	38 (<i>Note 3</i>)	21 January 2006 to 20 January 2016	TQ Digital
	PRC	1695623	42 (<i>Note 2</i>)	7 January 2002 to 6 January 2012	NetDragon (Fujian)
	PRC	1567876	38 (<i>Note 3</i>)	7 May 2001 to 6 May 2011	NetDragon (Fujian)
	PRC	3012741	9 (<i>Note 4</i>)	21 February 2003 to 20 February 2013	NetDragon (Fujian)

Notes:

1. Class 41 relates to education; providing of training; entertainment; sporting and cultural activities.
2. Class 42 relates to scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software.
3. Class 38 relates to telecommunications.
4. Class 9 relates to scientific, nautical, surveying, photographic, cinematographic, optical, weighting, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment and computers; fire-extinguishing apparatus.

As at the Latest Practicable Date, the Group was the registered owner of the following copyrights of computer software products in the PRC:

Name of computer software	Registration Approval/Date	Registration Number	Term of Validity	Subsidiary
征服軟件 V1.0	24 June 2003 (Note 1)	2003SR6560 (Note 1)	6 May 2003 - 5 May 2053 (Note 1)	TQ Digital
	27 August 2003 (Note 2)	閩 DGY-2003-0103 (Note 2)	27 August 2003 - 26 August 2008 (Note 2)	TQ Digital
幻靈游俠軟件 V3.0	4 March 2004 (Note 1)	2004SR01901 (Note 1)	9 February 2004 - 8 February 2054 (Note 1)	TQ Digital
	7 June 2004 (Note 2)	閩 DGY-2004-0055 (Note 2)	7 June 2004 - 6 June 2009 (Note 2)	TQ Digital
信仰軟件 V1.0	4 March 2004 (Note 1)	2004SR01902 (Note 1)	7 December 2003 - 6 December 2053 (Note 1)	TQ Digital
	7 June 2004 (Note 2)	閩 DGY-2004-0054 (Note 2)	7 June 2004 - 6 June 2009 (Note 2)	TQ Digital
機戰軟件 V1.0	1 June 2004 (Note 1)	2004SR05169 (Note 1)	5 March 2004 - 4 March 2054 (Note 1)	TQ Digital
	16 September 2005 (Note 2)	閩 DGY-2005-0082 (Note 2)	16 September 2005 - 15 September 2010 (Note 2)	TQ Digital
網絡遊戲《彩色江湖 III》軟件 V3.0	21 January 2005 (Note 1)	2005SR00975 (Note 1)	1 October 2004 - 30 September 2054 (Note 1)	TQ Digital
	8 March 2005 (Note 2)	閩 DGY-2005-0018 (Note 2)	8 March 2005 - 7 March 2010 (Note 2)	TQ Digital
91平台軟件 V1.0	17 February 2005 (Note 1)	2005SR01665 (Note 1)	1 October 2004 - 30 September 2054 (Note 1)	TQ Digital
	8 March 2005 (Note 2)	閩 DGY-2005-0017 (Note 2)	8 March 2005 - 7 March 2010 (Note 2)	TQ Digital
網絡遊戲《牧場 online》軟件 V1.0	6 April 2005 (Note 1)	2005SR03319 (Note 1)	25 December 2004 - 24 December 2054 (Note 1)	TQ Digital
	7 June 2005 (Note 2)	閩 DGY-2005-0060 (Note 2)	7 June 2005 - 6 June 2010 (Note 2)	TQ Digital
網絡遊戲《魔域》軟件 V1.0	12 May 2005 (Note 1)	2005SR04803 (Note 1)	1 December 2004 - 30 November 2054 (Note 1)	TQ Digital
	7 June 2005 (Note 2)	閩 DGY-2005-0059 (Note 2)	7 June 2005 - 6 June 2010 (Note 2)	TQ Digital

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

Name of computer software	Registration Approval/Date	Registration Number	Term of Validity	Subsidiary
Zero Online V1.0	31 August 2005 (Note 1)	2005SR09826 (Note 1)	30 June 2005 - 29 June 2055 (Note 1)	TQ Digital
	16 September 2005 (Note 2)	閩 DGY-2005-0082 (Note 2)	閩 DGY-2005-0082 (Note 2)	TQ Digital
《91遊》軟件 V1.0	17 January 2005 (Note 1)	2005SR00735 (Note 1)	1 September 2004 - 31 August 2054 (Note 1)	NetDragon (Fujian)
	8 March 2005 (Note 2)	閩 DGY-2005-0016 (Note 2)	8 March 2005 - 7 March 2010 (Note 2)	NetDragon (Fujian)
《幻靈遊俠》網絡遊戲軟件 V1.0	14 June 2002 (Note 1)	2002SR0491 (Note 1)	1 January 2002 - 31 December 2051 (Note 1)	NetDragon (Fujian)
	8 July 2002 (Note 2)	閩 DGY-2002-0082 (Note 2)	8 July 2002 - 7 July 2007 (Note 2)	NetDragon (Fujian)
網絡遊戲《星空之門》軟件 V1.0	17 January 2005 (Note 1)	2005SR00734 (Note 1)	16 November 2004 - 15 November 2054 (Note 1)	NetDragon (Fujian)
	8 March 2003 (Note 2)	閩 DGY-2005-0015 (Note 2)	8 March 2005 - 7 March 2010 (Note 2)	NetDragon (Fujian)





















Notes:









1. as shown on the Copyright Registration Certificate.
2. as shown on the Computer Software Product Registration Certificate.

As at the Last Practicable Date, TQ Digital was the registered owner of the following certificates of copyright registration in the PRC:-

Name of Works	Registration number	Date of Registration	Subsidiary
大牙(含文字)圖	13-2005-F2576	17 August 2005	TQ Digital
辮子熊圖案	13-2005-F2577	17 August 2005	TQ Digital
比特豬圖案	13-2005-F2578	17 August 2005	TQ Digital
《天天》圖案	13-2006-F1043	12 December 2006	TQ Digital
《晴晴》圖案	13-2006-F1044	12 December 2006	TQ Digital

As at the Latest Practicable Date, the Group has made applications for the registration of the following trademarks, the registration of which has not yet been granted as at the Latest Practicable Date:-

Trademark	Country of Application	Application Number	Class	Date of Application	Subsidiary
	PRC	4422442	42 (<i>Note 1</i>)	20 December 2004	TQ Digital
	PRC	4422443	41 (<i>Note 2</i>)	20 December 2004	TQ Digital
	PRC	4422444	28 (<i>Note 3</i>)	20 December 2004	TQ Digital
	PRC	4422445	9 (<i>Note 4</i>)	20 December 2004	TQ Digital
	PRC	4317417	42 (<i>Note 1</i>)	19 October 2004	TQ Digital
	PRC	4317418	41 (<i>Note 2</i>)	19 October 2004	TQ Digital
	PRC	4317479	9 (<i>Note 4</i>)	19 October 2004	TQ Digital
	PRC	4317478	28 (<i>Note 3</i>)	19 October 2004	TQ Digital
	PRC	4995889	41 (<i>Note 2</i>)	11 November 2005	TQ Digital
	PRC	4995888	38 (<i>Note 5</i>)	11 November 2005	TQ Digital
	PRC	4995887	35 (<i>Note 6</i>)	11 November 2005	TQ Digital
	PRC	4995886	28 (<i>Note 3</i>)	11 November 2005	TQ Digital
	PRC	4995885	9 (<i>Note 4</i>)	11 November 2005	TQ Digital
	PRC	4995890	42 (<i>Note 1</i>)	11 November 2005	TQ Digital
	PRC	4280863	9 (<i>Note 14</i>)	22 September 2004	NetDragon (Fujian)
	PRC	4280864	41 (<i>Note 15</i>)	22 September 2004	NetDragon (Fujian)
	PRC	4280865	42 (<i>Note 16</i>)	22 September 2004	NetDragon (Fujian)
	PRC	4292834	25 (<i>Note 7</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4292835	28 (<i>Note 3</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4292837	41 (<i>Note 2</i>)	29 September 2004	NetDragon (Fujian)

Trademark	Country of Application	Application Number	Class	Date of Application	Subsidiary
	PRC	4292836	42 (<i>Note 1</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4422440	35 (<i>Note 6</i>)	20 December 2004	NetDragon (Fujian)
	PRC	4292831	9 (<i>Note 4</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4292828	25 (<i>Note 7</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4292832	28 (<i>Note 3</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4292833	41 (<i>Note 2</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4292829	42 (<i>Note 1</i>)	29 September 2004	NetDragon (Fujian)
	PRC	4422441	35 (<i>Note 6</i>)	20 December 2004	NetDragon (Fujian)
征 服	PRC	3425882	9 (<i>Note 4</i>)	6 January 2003	NetDragon (Fujian)

Note:

1. Class 42 relates to scientific and technological services and research and design services relating thereto; industrial analysis and research services; design and development of computer hardware and software.
2. Class 41 relates to education; provision of training; entertainment; athletic and cultural activities.
3. Class 28 relates to entertainment and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.
4. Class 9 relates to scientific, nautical, geodesic, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines, non-operated apparatus and mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment and computers; fire-extinguishing apparatus.
5. Class 38 relates to telecommunications.
6. Class 35 relates to advertising; business management; business administration; office functions.
7. Class 25 relates to clothing, shoes, headgear.

3. FURTHER INFORMATION ABOUT THE DIRECTORS, SENIOR MANAGEMENT AND STAFF

A. Disclosure of Directors' interests in the share capital of the Company or its associated corporations

Immediately following completion of the International Placing and the Capitalisation Issue, but without taking into account (1) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme and the Over-allotment Option; (2) any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate referred to in paragraph 1E in this Appendix, the interests and/or short positions of the Directors in the Shares underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which will have to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) once the Shares are listed on GEM; or (ii) which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein once the Shares are listed on GEM; or (iii) which will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed on GEM, will be as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Through controlled corporations	278,959,040 (L)	51.65%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Dejian (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Luyuan (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%

Name of Director	Name of company	Capacity and nature of interests	Number of shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Luyuan (Note 2)	The Company	Through controlled corporations	278,959,040 (L)	51.65%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Zheng Hui (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Zheng Hui (Note 2)	The Company	Through controlled corporations	278,959,040 (L)	51.65%
Chen Hongzhan (Note 4)	The Company	Through a controlled corporation	13,000,000 (L)	2.41%

Notes:

1. The letter "L" denotes the shareholder's interest in the share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.4% of the issued share capital of DJM Holding Ltd., which in turn is interested in 33.96% of the issued share capital of the Company.

Liu Luyuan is interested in 100% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 4.88% of the issued share capital of the Company.

Zheng Hui is interested in 4.6% and 100%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 33.96% and 6.57%, respectively, of the issued share capital of the Company. Zheng Hui controls the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.24% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the Shares. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.65% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.7%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon

(Shanghai). Zheng Hui is directly beneficially interested in 1% of the registered capital of NetDragon (Shanghai). 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 registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 99% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.41% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.41% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited.

B. Interests and short positions of persons who are substantial shareholders for the purpose of the GEM Listing Rules and under the SFO

So far as the Directors are aware, immediately following the completion of the International Placing and the Capitalisation Issue but without taking into account (i) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme and the Over-allotment Option; or (ii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate referred to in paragraph 1E headed “Written resolutions of all the Shareholders passed on 15 October 2007” in Appendix V to this prospectus, the persons (other than the Directors or chief executive of the Company) with interests or short positions in the Shares or underlying Shares 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 would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are 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 will be as follows:

Name	Name of Group member	Capacity and nature of interests	Number of shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	183,402,600(L)	33.96%
Fitter Property Inc.	The Company	Beneficial owner	35,498,720(L)	6.57%
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	33,712,920(L)	6.24%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	33,712,920(L)	6.24%
IDG Group	The Company	Beneficial owner	78,333,320(L)	14.51%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

Notes:

1. The letter “L” denotes the shareholder’s interest in the share capital of the relevant member of the Group.
2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and is owned as to 100% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.24% of the issued share capital of the Company through its shareholding in Eagle World International Inc.

C. Directors’ service contracts and appointment letters

Each of the executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects and are briefly described as follows:

- (1) each service contract is for an initial term of three years commenced from 15 October 2007 subject to termination in certain circumstances as stipulated in the contract;
- (2) the annual remuneration payable to the executive Directors under each of the service contracts are as follows:

Liu Dejian	RMB1,459,000
Liu Luyuan	RMB546,000
Zheng Hui	RMB157,560
Chen Hongzhan	RMB499,200

- (3) the annual remuneration of each of the executive Directors may, subject to Shareholders’ approval in general meeting, be revised by the Board; and
- (4) each of the executive Directors is entitled to out-of-pocket expenses reasonably incurred during his term of office.

Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company. The terms and conditions of each of such letters of appointment are similar in all material respects and are briefly described as follows:

- (1) each letter of appointment with a non-executive Director and an independent non-executive Director is for an initial term of three years commenced from 15 October 2007 subject to termination in certain circumstances as stipulated in the relevant letters of appointment;

- (2) the annual remuneration payable to the non-executive and independent non-executive Directors under each of the letters of appointment are as follows:

Lin Dongliang	nil
Zhu Xinkun	nil
Lee Kwan Hung	RMB240,000
Chao Guowei, Charles	RMB180,000
Liu Sai Keung, Thomas	nil

- (3) the annual remuneration of each of the non-executive Directors and independent non-executive Directors may, subject to Shareholders' approval in general meeting, be revised by the Board; and
- (4) each of the non-executive Directors and independent non-executive Directors is entitled to out-of-pocket expenses reasonably incurred during his term of office.

D. Directors' remuneration

- (1) The aggregate remuneration paid by the Company to the Directors in respect of the two years ended 31 December 2006 and the six months ended 30 June 2007 were RMB678,000 (equivalent to approximately HK\$692,000), RMB1,287,000 (equivalent to approximately HK\$1,313,000) and RMB1,096,000 (equivalent to approximately HK\$1,118,000), respectively.
- (2) Save as disclosed in this prospectus, no other emoluments have been paid or are payable in respect of the two years ended 31 December 2006 and the six months ended 30 June 2007 by the Company to the Directors.
- (3) Pursuant to the current arrangements, it is expected that an aggregate amount of approximately RMB2,326,000 (equivalent to approximately HK\$2,373,000) will be paid to the Directors as remuneration for the year ending 31 December 2007.
- (4) The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

E. Disclaimers

Save as disclosed in this prospectus:

- (1) none of the Directors had any interest or short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) will have 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 are taken or deemed to have under such provisions of the SFO) once the Shares are listed; or (ii) will be required, pursuant to section 352 of the SFO to be entered in the

register of directors' and chief executives' interests and short positions referred to therein once the Shares are listed; or (iii) will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed;

- (2) so far as is known to any Director, supervisor or chief executive, other than a Director, supervisor or chief executive, no person is expected, directly or indirectly, to be 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 other member of the Group and the amount of each of such person's interest in such securities;
- (3) none of the Directors or any of the parties listed in the paragraph head "Consents of Experts" in this Appendix is interested in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to the Company or its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries;
- (4) none of the Directors or any of the parties listed in the paragraph headed "Consents of Experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company;
- (5) none of the Directors or any of the parties listed in the paragraph headed "Consents of Experts" in this Appendix has any shareholding in the Company or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company;
- (6) none of the Directors has entered or is proposed to enter into a service contract with the Company (other than contracts expiring or determinable by the employer within one year without payment of compensation other than the statutory compensation);
- (7) no amount or benefit has been paid or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such amount or benefit intended to be paid or given;
- (8) so far as is known to any Director, there is no legal person or individual who will, immediately following the completion of the International Placing, be 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 the Company or its subsidiaries (if any) shares of the Company then in issue; and
- (9) none of the Directors or their respective associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the registered capital of the Company) has any interest in the any of five largest suppliers or customers of the Company.

4. SHARE OPTION SCHEME

A. Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution of all the Shareholders on 15 October 2007:

(a) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to provide incentives or rewards to Participants (as defined below) thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Company or any of its subsidiaries holds any equity interest (the “Invested Entity”).

(b) *Who may join*

The Directors may, at their discretion, invite any participant (the “Participant(s)”) being any executive director, non-executive director or employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider, any joint venture partner, business or strategic alliance partner, in each case, of the Company, any subsidiary of the Company or any Invested Entity or any discretionary trust whose discretionary objects may be any executive director, non-executive director or employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider, any joint venture partner, business or strategic alliance partner, in each case, of the Company, any subsidiary of the Company or any Invested Entity to take up options to subscribe for Shares in the Company.

(c) *Maximum number of shares*

(i) 30% limit

The limit on the number of Shares which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time (the “Scheme Limit”).

(ii) 10% limit

In addition to the Scheme Limit, and subject to the following, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at the Listing Date (without taking into account of any Shares to be issued under the Over-allotment Option) being 54,000,786 Shares unless Shareholders’ approval has been obtained pursuant to any of the following two paragraphs (excluding any options which have lapsed) (the “Scheme Mandate Limit”).

The Company may, from time to time, refresh the Scheme Mandate Limit by issuing a circular to the Shareholders and obtaining the approval of its shareholders in general meeting. Once refreshed, the total number of securities which may be issued upon exercise of all options to be granted under the Share Option Scheme and all other share option schemes of the Company under the limit, as refreshed, must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and/or any other share option schemes of the Company, including without limitation any options which are outstanding, cancelled, lapsed or exercised, will not be counted for the purpose of calculating the refreshed 10% limit.

The Company may seek separate approval by the Shareholders in general meeting for granting options beyond the refreshed Scheme Mandate Limit provided the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. A circular containing a generic description of the specified Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Participants with an explanation as to how the terms of the options serve such purpose and other information required under the GEM Listing Rules must be sent to the Shareholders.

(d) *Maximum entitlement of each Participant*

Unless approved by Shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue. Where any further grant of options to a Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. The Company must send a circular in relation to the proposal for the further grant to the Shareholders, containing such information and disclaimer from time to time required by the GEM Listing Rules, the identity of the Participant, and the number and terms (including the exercise price) of the options to be granted (and options previously granted) to such Participant.

(e) *No prescribed performance targets*

The Directors may or may not set performance targets that must be achieved before the options can be exercised, but no such performance targets are presently prescribed under the Share Option Scheme.

(f) *Price of Shares*

The exercise price must be at least the highest of: (a) the nominal value of a Share on the date of grant; (b) the closing price of a Share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; and (c) the average closing price

of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. For the purpose of calculating the exercise price where the Company has been listed for less than five business days, the Placing Price shall be used as the closing price for any business day falling within the period before listing.

(g) *Amount payable upon acceptance of the option*

Acceptance of an offer of the grant of an option shall be by the delivery to and receipt by the Company at its principal place of business in Hong Kong of the form of acceptance sent to the Participant duly completed and signed by the Participant together with a remittance of HK\$1.00, by way of consideration for the grant thereof, in an envelope marked for the attention of the secretary of the Company.

(h) *Period of the Share Option Scheme*

The Share Option Scheme shall commence on the date it becomes unconditional and, subject to termination pursuant to the Share Option Scheme, shall continue in force until the tenth anniversary of such date.

(i) *Rights are personal to the option holder*

An option shall be personal to the option holder and shall not be assignable and no option holder shall in any way sell, transfer, change, mortgage, encumber or create any interest in favour of any third party over or in relation to any option.

(j) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum period for which an option must be held.

(k) *Grant of an option to connected persons*

Any grant of options to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates (including a discretionary trust whose discretionary objects include a director, chief executive, management shareholder or substantial shareholder) shall be approved by the independent non-executive directors of the Company (excluding an independent non-executive director who is the grantee of the options). Where any option is proposed to be granted to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an

independent non-executive director) and such grant would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the past 12-month period up to and including the proposed date of grant of the option:

- (i) representing in aggregate over 0.1% of the Shares of the Company in issue for the time being; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of each grant, in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders (taken on a poll) in general meeting. All connected persons of the Company must abstain from voting in favour at such general meeting (except that any connected person may vote against the proposed grant and provided that his intention to do so has been stated in the circular). The Company shall issue a circular to the Shareholders explaining the proposed grant, disclosing the number and terms (including the subscription price) of the options to be granted to each grantee and containing a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee) on whether or not to vote in favour of the proposed grant and including all the information required under the GEM Listing Rules.

(l) *Restrictions on the time of grant of options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspapers. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the GEM Listing Rules); and (b) the deadline for the Company to publish an announcement of its results for any year or half-year or quarter-year period under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement.

(m) *Rights on ceasing to be a Participant*

If an option holder who is a director of the Company or any subsidiary of the Company or Invested Entity, or an executive or an employee of the Company or any subsidiary of the Company or Invested Entity ceases to be so engaged:

- (i) by reason of ill-health, injury, disability or death (in each case evidenced to the satisfaction of the Directors) or by reason of his employing company ceasing to be a member of the Group or an Invested Entity or by termination of his employment by his employing company on notice in accordance with the provisions of his contract of employment or with pay in lieu of such notice or on retirement in accordance with his

contract of employment or otherwise by agreement with his employing company, then he or (as the case may be) his personal representatives may, notwithstanding any restriction on exercise pursuant to this paragraph (m), exercise all or any of his options (to the extent not already exercised) in whole or in part at any time within a period ending on the earlier of (a) 6 months after the date he ceases to be so engaged and (b) the date on which the relevant option would but for the operation of this paragraph (m)(i) have ceased to be exercisable, and any option or options not so exercised shall lapse and determine at the end of such period; or

- (ii) by reason of his resignation, whether or not in accordance with the provisions of his contract of employment, then all his options (whether or not exercised) shall lapse and determine on the date upon which such resignation is received by his employing company; or
- (iii) by reason of his dismissal without notice (or payment in lieu) for misconduct or other grounds entitling the Company, subsidiary of the Company or Invested Entity (as the case may be) to summarily terminate his employment, then all his options (whether or not exercised) shall lapse and determine immediately without compensation at the time of notification by the Company, subsidiary of the Company or Invested Entity of such termination; or
- (iv) for any reason other than as described in paragraphs (i), (ii) and (iii) above, then all his options shall lapse and determine on the date he so ceases (to the extent not already exercised).

Provided that in any such case the Directors may specify such other conditions or limitations as they may in their absolute discretion think fit in respect of the exercise by the option holder concerned of his options in substitution for those specified in this paragraph (m).

(n) *Effect on takeover*

If, in consequence of any general offer made to the holders of Shares (being an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of the Company) or otherwise, any person shall have obtained control of the Company, then each option holder (or his personal representatives) shall be entitled at any time within the period of six months after such control has been obtained to exercise all or any of his options in whole or in part, and to the extent that it has not been so exercised, any option shall upon the expiry of such period lapse and determine, provided that if, during such period, such person becomes entitled to exercise rights of compulsory acquisition of Shares and gives notice in writing to any holders of Shares that he intends to exercise such rights, options shall be and will remain exercisable until one month from the date of such notice and, to the extent that they have not been exercised, shall thereupon lapse and determine.

(o) *Effect on winding-up*

In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purposes of considering, and if thought fit approving, a resolution to voluntarily

wind-up the Company, the Company shall give notice thereof to each option holder whereupon each option holder shall be entitled not later than five business days prior to the proposed shareholders' meeting to exercise his option to its full extent or to the extent specified in such option notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed shareholders' resolution, allot such number of Shares to the option holder which fall to be issued pursuant to the exercise of his option. Subject to the foregoing, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding-up of the Company.

(p) *Effect on reconstruction*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all option holders on the same date as it dispatches to each member or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each option holder (or his personal representatives) shall be entitled to exercise all or any of his options in whole or in any part at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all option holders to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall to the extent that they have not been exercised thereupon lapse and determine. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of option holders to exercise their respective options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by the Company.

(q) *Ranking of Shares*

A share issued upon exercise of an option shall not carry voting rights until the registration of the option holder (or any other person) as the holder hereof. If under the terms of a resolution passed or an announcement made by the Company prior to the date of allotment of Shares to be made pursuant to any exercise of an option, a dividend is to be or is proposed to be paid to holders of Shares on the register on a date subsequent to such date of allotment, the Shares to be issued upon such exercise will not rank for such dividend. Subject as aforesaid, Shares allotted upon the exercise of an option shall rank *pari passu* in all respects with the Shares in issue on the date of such allotment and will be subject to all the provisions of the articles of association of the Company for the time being in force.

(r) *Effect of alteration to capital*

In the event of any reduction of capital, sub-division or consolidation of share capital of the Company, any capitalisation issue or rights issue by the Company, the number or nominal amount

of Shares comprised in each option (so far as unexercised) and/or the option price thereunder and/or the number of Shares issued or issuable or which may be issued under the Share Option Scheme may be adjusted in such manner as the Directors may deem appropriate subject to the receipt by them of a statement in writing from the auditors of the Company (acting as experts and not as arbitrators) that in their opinion the adjustments proposed are fair and reasonable, provided always (i) that no increase shall be made in the aggregate subscription price payable on the exercise of any option in respect of the total Shares then comprised therein (ii) that no adjustment shall be made if the same would result in a Participant being deprived of equivalent rights over the same proportion (or as near thereto as is reasonably practicable) of the equity capital of the Company as that to which he was previously entitled, and (iii) no Shares shall be issued at less than its nominal value. However, the issue of any Shares as a result of the exercise of subscription rights under any warrants issued by the Company prior to the date upon which the Share Option Scheme comes into effect or an issue by the Company of Shares or by the Company of securities wholly or partly convertible into or rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business shall not be regarded as circumstances requiring adjustment.

(s) *Cancellation of option granted*

The Directors may from time to time, with the consent of the relevant Grantee, in their absolute discretion cancel any or all options granted but not exercised. An option shall lapse automatically and not be exercised (to the extent not already exercised) on the date on which the option is cancelled by the Directors as provided above.

Where the Company cancels options and issues new options to the same option holder, the issue of such new options may only be made under the Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by Shareholders as mentioned in note (1) to Rule 23.03(3) of the GEM Listing Rules.

(t) *Lapse of options*

An option shall automatically lapse and determine upon occurrence of the events stated in paragraphs (m), (n), (o) and (p) above, subject to the terms set out therein.

(u) *Termination and alteration of Share Option Scheme*

The Company by resolution in general meeting or the Directors may at any time terminate the operation of the Share Option Scheme and in such event no further offer will be made to grant options but in all other respects the provisions of the Share Option Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The Directors may from time to time in their absolute discretion waive or amend the provisions of the Share Option Scheme without Shareholders' approval as they deem desirable provided that:

- (i) such amendments must not result in the non-compliance of the GEM Listing Rules for the time being;
- (ii) the Directors may not amend any of the provisions of the Share Option Scheme so as to alter to the advantage of Participants any of the provisions relating to the matters set out in Rule 23.03 of the GEM Listing Rules except with the prior sanction of the shareholders of the Company in general meeting; and
- (iii) any alterations to the terms and conditions of the Share Option Scheme, which are of a material nature or any change to the terms of options granted, shall be subject to the approval of the Shareholders, save where the alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change in the terms of the Share Option Scheme which changes the power or authority of the Board to alter the terms of such Share Option Scheme must be approved by Shareholders in general meeting.

(v) *Disclosure in annual and half-year reports*

The Company will disclose details of the Share Option Scheme in its annual and half-year reports the information as required under Rules 23.07, 23.08 and 23.09 of the GEM Listing Rules.

(w) *Valuation of Share Options*

The Directors consider that it is not appropriate to state the value of all options that can be granted pursuant to the Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the option value have not been determined. Such variables include the exercise price, exercise period, any lock up period, any performance targets set and other relevant variables. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.

(x) *Effect of the Share Option Scheme*

The rules of the Share Option Scheme enable the Directors to determine the terms and conditions of any option based in each case on relevant factors as they consider appropriate. The Directors believe that the authority given to them under the Share Option Scheme to set any

minimum holding period and/or performance targets as conditions in any option granted and the requirement for a minimum subscription price as well as the selection criteria prescribed by the rules of the Share Option Scheme will serve to protect the value of the Company and any of its subsidiaries as well as to achieve the purpose of the Share Option Scheme.

B. Present status of the Share Option Scheme

The Share Option Scheme is conditional on the GEM Listing Committee granting approval of the listing of, and permission to deal in, the Shares to be issued as mentioned therein and is also conditional on the International Placing taking place.

As at the Latest Practicable Date, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the GEM Listing Committee for the approval of for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

5. OTHER INFORMATION

A. Estate duty, tax and other indemnities

(a) Estate duty and tax indemnity

Each of DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Cristionna Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan and Chen Hongzhan has, pursuant to a deed of indemnity referred to the paragraph headed “Summary of material contracts” of this Appendix, given joint and several indemnities in respect of among other things (a) any liability for Hong Kong estate duty which might be incurred by any member of the Group by virtue of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong, as amended)) to any member of the Group on or before the date on which the International Placing becomes unconditional, and (b) any tax liabilities which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date, save:

- (a) to the extent that full provision or allowance has been made for such taxation in the audited consolidated accounts of the Group for each of the two years ended 31 December 2006 and the six months ended 30 June 2007, as set out in Appendix I to this prospectus;
- (b) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Listing Date;

- (c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any members of the Group which are carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 30 June 2007; or
- (d) to the extent of any provisions or reserve made for taxation in the audited accounts of the Group up to 30 June 2007 which is finally established to be an over-provision or an excessive reserve.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in Cayman Islands, USA and the PRC, being jurisdictions in which the companies comprising the Group are incorporated.

(b) Non-compliance of the Group

Each of DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Cristionna Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan and Chen Hongzhan has given a joint and several indemnity in favour of the Group in respect of all losses to be suffered by the Group as a result of any penalties, disputes, claims or proceedings arising from any non-compliance of the Group on or before the Listing Date.

B. Joint Sponsors

Bear Stearns and First Shanghai Capital made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, on GEM the Shares in issue of the Company. All necessary arrangements have been made for the Shares to be accepted as eligible securities by CCASS.

C. Compliance Adviser

In accordance with the requirements of the GEM Listing Rules, the Company will appoint First Shanghai Capital as its compliance adviser to provide advisory services to the Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year ending 31 December 2009.

D. Litigation

As at the Latest Practicable Date, neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against the Company or any member of the Group.

E. No material adverse change

The Directors believe that there has been no material adverse change in the financial or trading position of the Company or its subsidiaries since 30 June 2007 (being the date to which the latest audited financial statements of the Company were made up).

F. Qualifications of experts

The following are the qualifications of the experts (as defined under the GEM Listing Rules) who have given opinion or advice which are contained in this document:-

Name	Qualifications
Bear Stearns	Bear Stearns Asia Limited, a licensed corporation under the SFO for regulated activities of type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management)
First Shanghai Capital	A licensed corporation under the SFO for regulated activities of Type 6 (advising on corporate finance) regulated activities
Grant Thornton	Certified public accountants
Dacheng Law Offices	Qualified PRC lawyers
Sallmanns (Far East) Limited	Professional property valuers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Morgan, Lewis & Bockius, LLP	U.S. Lawyers

G. Consents of experts

Each of Bear Stearns, First Shanghai Capital, Grant Thornton, Dacheng Law Offices, Sallmanns (Far East) Limited, Conyers Dill & Pearman and Morgan, Lewis & Bockius, LLP has given and has not withdrawn its written consent to the issuance of this prospectus with inclusion of their reports and/or letters and/or valuation certificates and/or the references to their name included herein in the form and context in which they are respectively included.

H. Registration procedures

The register of members of the Company will be maintained in the Cayman Islands by Bank of Bermuda (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

I. Taxation of holders of Shares**(a) The Cayman Islands**

Under the present Cayman Islands law, transfers and other disposals of Shares are not subject to Cayman Islands stamp duty unless the Company holds an interest in land in the Cayman Islands.

(b) Hong Kong

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(c) Generally

Potential holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of applying for, purchasing, holding or disposing of, or dealing in, Shares. It is emphasised that none of the Company, the Directors, Bear Stearns, First Shanghai Capital their respective directors nor any other parties involved in the International Placing accepts responsibility for any tax effect on, or liabilities of, persons resulting from the subscription for, holding, purchase or disposal of or dealing in the Shares.

J. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

K. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus:

- (i)** no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash or for consideration other than cash;
- (ii)** no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries;
- (iii)** no share or loan capital of the Company or any of its subsidiaries is under option.

- (b) there has not been any interruption in the business of the Group which may have had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus;
- (c) no preliminary expenses were incurred nor payable by the Company;
- (d) neither the Company nor any of its subsidiaries has issued or agreed to issue any founder shares, management shares, deferred shares or any debentures; and
- (e) none of Bear Stearns, First Shanghai Capital, Grant Thornton, Dacheng Law Offices, Sallmanns (Far East) Limited, Conyers Dill & Pearman and Morgan, Lewis & Bockius, LLP nor any of their respective directors, employees and associates (i) is interested beneficially or non-beneficially in any securities in any member of the Group; or (ii) has any right or option (whether legally enforceable or not) to subscribe for or nominate person to subscribe for any securities in the Company; or (iii) has any direct or indirect interest in the promotion of, or in any assets which have been acquired or disposed of by or leased to the Company within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of or leased to the Company.

L. Particulars of the Selling Shareholders

The following are the particulars of the Selling Shareholders:

Name (place of incorporation)	Date of incorporation	Registered office/ address	Number of Sales Shares offered under the International Placing
DJM Holding Ltd. (BVI)	30 October 2003	Trident Chambers, Wickhams Cay I, P.O. Box 146, Road Town, Tortola, BVI	4,000,000 (Note 1)
SEQUEDGE The First Chinese Equities Fund on Prospective for Listing (Japan)	17 August 2006	1-7-7 Shibuya Shibuya-ku, Tokyo, Japan	2,000,000
Fitter Property Inc. (BVI)	13 April 2006	Trident Chambers, P.O. Box 146, Road Town, Tortola, BVI	1,800,000 (Note 3)

APPENDIX V

STATUTORY AND GENERAL INFORMATION

Name (place of incorporation)	Date of incorporation	Registered office/ address	Number of Sales Shares offered under the International Placing
Cristionna Holdings Limited (BVI)	30 October 2003	Trident Chambers, Wickhams Cay I, P.O. Box 146, Road Town, Tortola, BVI	1,000,000 (Note 2)
Growing Up Capital Inc. (BVI)	8 May 2007	Trident Chambers, P.O. Box 146, Road Town, Tortola, BVI	800,000
Richmedia Holdings Limited (BVI)	10 May 2004	Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	500,000 (Note 4)
Wu Chak Man	N/A	Room 1206, 969 Changning Road, Changning District, Shanghai, the PRC	500,000
Lilywhites Venture Limited (BVI)	10 May 2007	Trident Chambers, P.O. Box 146, Road Town, Tortola, BVI	400,000
Maincorp Worldwide Ltd. (BVI)	21 March 2007	Trident Chambers, P.O. Box 146, Road Town, Tortola, BVI	400,000
Main Shine Company Limited (BVI)	10 May 2007	Trident Chambers, P.O. Box 146, Road Town, Tortola, BVI	300,000
Peony Glory Holding Ltd. (BVI)	21 March 2007	Trident Chambers, P.O. Box 146, Road Town, Tortola, BVI	300,000

APPENDIX V

STATUTORY AND GENERAL INFORMATION

Name (place of incorporation)	Date of incorporation	Registered office/ address	Number of Sales Shares offered under the International Placing
Chen Feng	N/A	333 Fang Dian Road, 5-801, Shanghai, the PRC	200,000
Kellyton International Limited (BVI)	10 May 2007	Trident Chambers, P.O. Box 146, Road Town, Tortola, BVI	200,000
Total:			<u>12,400,000</u>

Notes:

1. The Shares are beneficially owned as to approximately 95.4% and 4.6%, respectively, by Liu Dejian and Zheng Hui, who are executive Directors.
2. The Shares are beneficially owned as to approximately 99% by Chen Hongzhan, an executive Director.
3. The Shares are wholly and beneficially owned by Zheng Hui, an executive Director.
4. The Shares are wholly and beneficially owned by Liu Luyuan, an executive Director.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- the written consents referred to in the paragraph headed “Other information - Consents of experts” in Appendix V to this prospectus;
- copies of the material contracts referred to in the paragraph headed “Further information about the business - Summary of material contracts” in Appendix V to this prospectus;
- statement of adjustments signed by Grant Thornton; and
- statement of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Arculli Fong & Ng (in association with King & Wood, PRC Lawyers) at 908, Hutchison House, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the memorandum of association and the Articles;
- (b) the accountants’ report prepared by Grant Thornton, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;
- (c) the letter dated the date of this prospectus from Grant Thornton relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the letter dated the date of this prospectus, and valuation certificates relating to the property interests of the Group prepared by Sallmanns (Far East) Limited, the text of which is set out in Appendix III to this prospectus;
- (e) the PRC legal opinion issued by Dacheng Law Offices;
- (f) the California legal opinion issued by Morgan, Lewis & Bockius, LLP;
- (g) the Companies Law;
- (h) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;

- (i) copies of the material contracts referred to in paragraph headed “Further information about the business - Summary of material contracts” in Appendix V to this prospectus;
- (j) the written consents referred to in paragraph headed “Other information - Consents of experts” in Appendix V to this prospectus;
- (k) the rules of the Share Option Scheme;
- (l) the statement of particulars of the Selling Shareholders; and
- (m) the service contracts and letters of appointment with the Directors referred to in paragraph headed “Further information about the Directors, senior management and staff - Directors’ service contracts and appointment letters” in Appendix V to this prospectus.