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## SUMMARY

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*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.

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- 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.

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### 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

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### 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.

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### 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

	<b>Year ended 31 December</b>		<b>Six months ended 30 June</b>	
	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
<b>Revenue - turnover</b>	35,119	122,061	26,111	261,749
Cost of revenue	(4,669)	(11,179)	(3,253)	(14,665)
<b>Gross profit</b>	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)
<b>Operating (loss)/profit</b>	(30,921)	51,545	(1,280)	172,266
Loss on disposal of an associate	—	(2)	—	—
<b>(Loss)/Profit before income tax</b>	(30,921)	51,543	(1,280)	172,266
Income tax credit/(expense)	1,721	(8,558)	(1,500)	(18,179)
<b>(Loss)/Profit for the year/period</b>	<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>
<b>Dividends</b>	—	—	—	79,069
	<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>
<b>(Loss)/Earnings per Share (Note)</b>				
- attributable to the equity holders of the Company	(7.29)	10.70	(0.69)	34.79
	<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.

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### CONSOLIDATED BALANCE SHEETS

	<b>At 31 December</b>		<b>At 30 June</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
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>
<b>Current assets</b>			
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>
<b>Current liabilities</b>			
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>
<b>Net current assets</b>	<u>15,755</u>	<u>77,295</u>	<u>189,790</u>
<b>Total assets less current liabilities/Net assets</b>	<u><u>39,969</u></u>	<u><u>104,707</u></u>	<u><u>228,659</u></u>
<b>EQUITY</b>			
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>
<b>Total equity</b>	<u><u>39,969</u></u>	<u><u>104,707</u></u>	<u><u>228,659</u></u>

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### 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

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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.



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### 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	International Placing and the Capitalisation Issue	Approximate	Approximate total cost of investment	Approximate cost of investment per 1,000,000 Shares	Moratorium period within the meaning of the GEM Listing Rules (as from the Listing Date)
			Number of Shares held immediately before completion of the		percentage of shareholding immediately before completion of the			
			(%)		(%)	HK\$	HK\$	
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

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Name	Date on which interest in the Group was first acquired	International Placing and the Capitalisation Issue	Approximate	International Placing and the Capitalisation Issue	Approximate	Approximate total cost of investment	Approximate cost of investment per 1,000,000 Shares	Moratorium period within the meaning of the GEM Listing Rules (as from the Listing Date)
			Number of Shares held immediately before completion of the		percentage of shareholding immediately before completion of the			
			(%)		(%)	HK\$	HK\$	
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 (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.
- 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.
- 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.
- Wu Chak Man is a member of our senior management and an Initial Management Shareholder under the GEM Listing Rules.

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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.

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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

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

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## SUMMARY

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### 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

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## SUMMARY

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- 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

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## SUMMARY

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- 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

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## SUMMARY

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### **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



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## SUMMARY

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**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