
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.

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- 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
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.

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- 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.

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- 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	<u>85</u>
Total	<u><u>404</u></u>

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.

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- 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>

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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.

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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	<u>50,000</u>	<u>0.5</u>
Total:	<u><u>10,000,000</u></u>	<u><u>100.0</u></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.

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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).

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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.

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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.