
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

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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

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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

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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.

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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.

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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.

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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

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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

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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.

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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.

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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.

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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

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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.

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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

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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

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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.

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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

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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

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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遊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 (網絡遊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 (網絡遊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

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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.

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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

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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.

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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

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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;

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- 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

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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.