
SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

There are risks associated with any investment. Some of the particular risks in investing in the Company are set out in the section headed "Risk Factors" in this document. You should read that section carefully before you decide whether to invest in the Shares.

BUSINESS OVERVIEW

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

We currently offer six proprietary games, namely Eudemons Online, Conquer Online, Zero Online, Tou Ming Zhuang Online, Monster & Me and Era of Faith. We have achieved significant revenue growth, particularly over the past two years from the strong performance of Eudemons Online and Conquer Online, our flagship games and major revenue generators. We launched Eudemons Online in March 2006 and had over 325,000 PCU and 70,000 ACU in the same year. The PCU and ACU further increased to more than 574,000 and 269,000, respectively for the year ended 31 December 2007. As to Conquer Online, even in its fourth year of operation, we still enjoyed approximately 24.4% and 23.1% increases in PCU and ACU, respectively for the year ended 31 December 2007 compared to the same period in 2006. We launched Zero Online in late April 2007 and we had over 91,000 PCU and 36,000 ACU during the period from its launch to 31 December 2007. Tou Ming Zhuang Online was launched in December 2007 which recorded 20,000 PCU and 6,000 ACU in December 2007. Monster & Me is our first developed MMORPG and was launched in July 2002. Era of Faith is a western style mythical MMORPG launched in June 2004.

We have achieved significant growth in revenue during the Track Record Period:

- Eudemons Online had revenue of approximately RMB69.5 million and RMB448.6 million for each of the two years ended 31 December 2007, respectively.
- Conquer Online had revenue of approximately RMB51.1 million and RMB135.3 million for each of the two years ended 31 December 2007, representing approximately 58.1% and 164.8% increases compared to the same periods in 2005 and 2006, respectively.

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- We reported total revenue of approximately RMB122.1 million and RMB645.2 million for each of the two years ended 31 December 2007, representing approximately 247.6% and 428.6% increases compared to the same periods in 2005 and 2006, respectively.

We currently have four games in our development pipeline, namely Way of the Five (previously named as Happiness Q), Tian Yuan (previously named as Piao Miao Online), Heroes of Might and Magic Online and the Disney Game. These new games offer different themes and gaming experience to attract various types of players. The closed and open beta testings of Way of the Five were conducted in the fourth quarter of 2007 and the game is expected to be launched in the second quarter of 2008. The closed beta testing of Tian Yuan was commenced in February 2007 and the game is expected to be launched in the third quarter of 2008. The closed beta testing of Heroes of Might and Magic Online has commenced in December 2007 and the game is expected to be launched in the second quarter of 2008. The Disney Game is currently under development and its closed beta testing is expected to be conducted in the fourth quarter of 2008 and the game is expected to be launched in the first quarter of 2009.

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

We currently have three distribution and payment channels, comprising (i) direct sales, where players may credit their game accounts through our online payment service providers or our distribution partners; (ii) pre-paid card sales through distributors, where our pre-paid cards are sold in both virtual and physical forms through third party sales distributors; and (iii) cooperation channels, where our online games are operated through the platforms of cooperation partners and the revenue is shared between us and the cooperation partners. Our direct sales includes online payment systems and other direct sales channels. Online payment systems under direct sales accounted for approximately 52.2%, 60.5% and 62.2% of our total revenue for each of the three years ended 31 December 2007, respectively.

In the PRC market, our revenue grew over 454.0% and 552.5% for each of the two years ended 31 December 2007, respectively compared to the same periods in 2005 and 2006, respectively.

We also enjoy significant sales growth by introducing non-Chinese language games, such as English, French, Spanish and Portuguese versions. This multi-language approach has proven to be a success, demonstrated by the 102.1% and 189.5% increases in revenue generated from the non-Chinese language market in each of the two years ended 31 December 2007 compared to the same periods in 2005 and 2006, respectively.

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COMPETITIVE STRENGTHS

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

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

OVERALL BUSINESS OBJECTIVES AND STRATEGIES

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

BUSINESS STRATEGIES

Our business strategies are set out as follow:

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

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TRADING RECORD

The table below sets out a summary of our audited consolidated results during the Track Record Period. The summary has been prepared on the basis that our current structure had been in existence throughout the period under review and is extracted from and has been prepared in accordance with the basis set out in Note 3 of the accountants' report in Appendix I to this document.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December		
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	35,119	122,061	645,214
Cost of revenue	<u>(4,669)</u>	<u>(11,179)</u>	<u>(36,863)</u>
Gross profit	30,450	110,882	608,351
Other revenue and gains	4,950	5,673	8,321
Selling and marketing expenses	(25,450)	(13,838)	(80,844)
Administrative expenses	(16,906)	(22,960)	(50,090)
Development costs	(15,464)	(12,835)	(37,253)
Other operating expenses	<u>(8,501)</u>	<u>(15,377)</u>	<u>(21,404)</u>
Operating (loss)/profit	(30,921)	51,545	427,081
Loss on disposal of an associate	<u>—</u>	<u>(2)</u>	<u>—</u>
(Loss)/Profit before income tax	(30,921)	51,543	427,081
Income tax credit/(expense)	<u>1,721</u>	<u>(8,558)</u>	<u>(52,244)</u>
(Loss)/Profit for the year	<u>(29,200)</u>	<u>42,985</u>	<u>374,837</u>
Attributable to			
Equity holders of the Company	(29,171)	42,856	374,854
Minority interests	<u>(29)</u>	<u>129</u>	<u>(17)</u>
	<u>(29,200)</u>	<u>42,985</u>	<u>374,837</u>
Dividends (Note 1)	<u>—</u>	<u>—</u>	<u>295,162</u>
	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
(Loss)/Earnings per Share (Note 2)			
- attributable to the equity holders of the Company	<u>(8.31)</u>	<u>12.21</u>	<u>85.01</u>

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Notes:

1. The dividends for the year ended 31 December 2007 comprise special dividends and a final dividend.
 - (i) Special dividends were declared and paid by the Company and NetDragon (BVI) prior to the reorganisation of the Group:
 - (a) On 3 February 2007, NetDragon (BVI) declared a special dividend of RMB44,839,000 to its then equity holders.
 - (b) On 20 June 2007, NetDragon (BVI) declared a special dividend of RMB34,230,000 to the Company. On the same date, the Company declared the same amount of dividend to its equity holders who are effectively the then equity holders of NetDragon (BVI).
 - (ii) The final dividend of RMB 216,093,000 was determined based on the number of shares as at the date of the results announcement of the Group for the year ended 31 December 2007, taking into account the share redemption of 15,858,500 shares after the year end. The final dividend for the year ended 31 December 2007 had been approved by the Company's shareholders at the annual general meeting held on 28 April 2008 and therefore, was not recognised as a liability at the balance sheet date.
2. The calculation of (loss)/earnings per Share attributable to the equity holders of the Company is calculated based on consolidated (loss)/profit attributable to the equity holders of the Company of each of the financial year during the Track Record Period and the weighted average number of 350,912,060, 350,912,060 and 440,953,947 Shares for each of the years ended 31 December 2005, 2006 and 2007, respectively, as adjusted to reflect the Shares issued for capitalisation as a result of the new Shares issued in connection with the GEM Listing.

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CONSOLIDATED BALANCE SHEETS

	At 31 December		
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13,738	23,211	61,344
Land use rights	—	—	1,174
Interest in an associate	430	—	—
Available-for-sale financial asset	4,000	4,000	4,000
Deferred tax assets	6,046	201	54
	<u>24,214</u>	<u>27,412</u>	<u>66,572</u>
Current assets			
Investment in trading securities	4,599	851	—
Trade and other receivables	9,953	40,354	67,295
Amounts due from related parties	5,530	11,357	8,832
Tax recoverable	—	—	581
Term deposits with initial term of over three months	—	—	50,000
Cash and cash equivalents	15,277	66,322	1,651,380
	<u>35,359</u>	<u>118,884</u>	<u>1,778,088</u>
Current liabilities			
Trade and other payables	17,103	37,910	45,262
Amounts due to related parties	2,156	725	76
Income tax payable	345	2,954	29,940
	<u>19,604</u>	<u>41,589</u>	<u>75,278</u>
Net current assets	<u>15,755</u>	<u>77,295</u>	<u>1,702,810</u>
Total assets less current liabilities/Net assets	<u>39,969</u>	<u>104,707</u>	<u>1,769,382</u>
EQUITY			
Share capital	1,453	1,453	41,219
Reserves	38,516	103,125	1,728,051
Equity attributable to the equity holders of the Company	39,969	104,578	1,769,270
Minority interests	—	129	112
Total equity	<u>39,969</u>	<u>104,707</u>	<u>1,769,382</u>

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SUMMARY OF OPERATING DATA

During the Track Record Period, our revenues were mainly generated from Eudemons Online and Conquer Online which were launched in March 2006 and September 2003, respectively. We reported consistent growth in PCU and ACU for both Eudemons Online and Conquer Online. In addition, we launched Zero Online and Tou Ming Zhuang Online in April and December 2007 respectively.

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

	For the three months ended											
	31 March 2005	30 June 2005	30 September 2005	31 December 2005	31 March 2006	30 June 2006	30 September 2006	31 December 2006	31 March 2007	30 June 2007	30 September 2007	31 December 2007
PCU												
Eudemons Online	—	—	—	—	26,000	50,000	128,000	325,000	438,000	496,000	527,000	574,000
Conquer Online	31,000	34,000	40,000	47,000	60,000	66,000	74,000	82,000	85,000	89,000	92,000	102,000
Zero Online	—	—	—	—	—	—	—	—	—	53,000	88,000	91,000
Tou Ming Zhuang Online	—	—	—	—	—	—	—	—	—	—	—	20,000
ACU												
Eudemons Online	—	—	—	—	17,000	31,000	56,000	140,000	213,000	274,000	294,000	294,000
Conquer Online	23,000	24,000	29,000	33,000	43,000	50,000	54,000	59,000	61,000	64,000	64,000	65,000
Zero Online	—	—	—	—	—	—	—	—	—	21,000	46,000	42,000
Tou Ming Zhuang Online	—	—	—	—	—	—	—	—	—	—	—	6,000

STRUCTURE CONTRACTS

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

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We have been advised by our PRC legal adviser, Jingtian and Gongcheng, that the Structure Contracts are in compliance with current PRC laws, rules and regulations. However, there are risks involved with the operation of our online game business under the Structure Contracts, particularly in light of the recent MII Notice issued in July 2006, imposing a more stringent regulatory environment on foreign investment in value-added telecommunication business, which introduces an increased risk of the contractual arrangements being challenged by the relevant PRC regulatory authorities. If the contractual arrangements between each of TQ Digital and TQ Online, 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 TQ Online and/or NetDragon (Fujian);
- imposing conditions or requirements with which TQ Digital or TQ Online 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 TQ Online and/or NetDragon (Fujian).

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

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SUBSTANTIAL SHAREHOLDERS

So far as the Directors or chief executive of the Company are aware, as at the Latest Practicable Date, the following persons (other than a Director or the chief executive of the Company) had interest or short position in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which is required, pursuant to section 336 of the SFO, to be entered in the register referred to therein or any option in respect of such capital:

Name	Name of Group member	Capacity and nature of interests	Number of shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	183,402,600(L)	33.95%
Fitter Property Inc.	The Company	Beneficial owner	35,498,720(L)	6.57%
Eagle World International Inc. <i>(Note 2)</i>	The Company	Beneficial owner	33,712,920(L)	6.24%
Flowson Company Limited <i>(Note 2)</i>	The Company	Through a controlled corporation	33,712,920(L)	6.24%
IDG Group	The Company	Beneficial owner	78,333,320(L)	14.51%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

Notes:

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

Save as disclosed above, as at the Latest Practicable Date, no other parties were recorded in the register required by the SFO to be kept as having interests of 5% or more or short positions of the issued share capital of the Company.

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RISK FACTORS

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

Risks relating to our contractual arrangements:

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

Risks relating to our business:

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

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

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- We may be liable to third parties for information improperly displayed on, retrieved from or linked to our websites or for information delivered or shared through our services
- We may be held liable for inappropriate online communications made among our players
- The information collected from our players may infringe on their privacy and may not be accurate
- We cannot be certain that our operation does not or will not infringe any patents, valid copyrights or other intellectual property rights held by third parties
- Unauthorised use of our intellectual property may adversely affect our business and reputation
- We may not be able to pay dividends in accordance with our proposed dividend policy
- Illegal game servers could harm our business and reputation

Risks relating to the industry in which we operate:

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

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Risks relating to the operations in the PRC:

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

Risks relating to the Main Board Listing:

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

Risks relating to the statements made in this document:

- We cannot guarantee the accuracy of facts and other statistics with respect to certain information contained in this document extracted from government official sources
- Forward-looking statements contained in this document may prove inaccurate and therefore investors should not place undue reliance on such information
- Investors should read the entire document 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