
HISTORY AND DEVELOPMENT

OUR OPERATION HISTORY

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

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

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

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

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

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

In November 2007 and April 2008, we entered into exclusive license agreements (the "Exclusive License Agreements") with China Film Group and Talentaïd (collectively, the "Licensors") respectively to develop and operate an online game named "*Tou Ming Zhuang Online*", based on the movie "*The Warlords*", exclusively in the World except U.S.A and Japan. China Film Group is a state-owned film enterprise which is the sole importer of foreign films in the PRC. Talentaïd is the owner of the licence of the movie "*The Warlords*". The exclusive right granted under the Exclusive License Agreements are for a term of five years commencing from the date of the respective Exclusive License Agreements.

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Pursuant to the terms of the Exclusive License Agreements, the Licensors shall own and retain the right, title and interest to the intellectual property rights in relation to the movie; while we shall own and retain all right, title and interest to the intellectual property rights in relation to the game developed under the Exclusive License Agreements.

In accordance with the terms of the Exclusive License Agreements, we have paid the Licensors a license fee and have to provide marketing support for promoting this collaboration. We confirm that the terms of the Exclusive License Agreements have been entered into by the Licensors and us on normal commercial terms.

In January 2008, we entered into a content development and distribution agreement (the “Disney License Agreement”) with BVIG to obtain a non-exclusive license to develop and operate a MMORPG in the PRC, based upon the graphic representations of certain characters and depictions of the certain characters and Disney classic stories owned by or licensed to BVIG and accompanying elements (the “Licensed Properties”). BVIG is a wholly owned subsidiary of the Walt Disney Company. The Disney License Agreement is for a term of four years commencing from 21 January 2008.

Pursuant to the terms of the Disney License Agreement, BVIG, its subsidiaries, affiliates or its licensor(s) shall own and retain all right, title and interest to the trademarks, copyrights and other intellectual property rights in the properties (including derivative works) licensed to us under the Disney License Agreement and anything we create using such properties, while we shall own and retain any intellectual property solely owned by us, including but not limited to the source code of the Disney Game.

Under the Disney License Agreement, we shall pay BVIG license fees, royalties subject to a minimum fee and a percentage of the advertising revenue relating to the Disney Game.

In addition, we have committed to incur an annual marketing support for the game and to devote sufficient human capital to develop and operate the game. We confirm that the terms of the Disney License Agreement have been entered into by BVIG and us on normal commercial terms, which refer to terms that we could obtain if the transaction was on an arm’s length basis or on terms no less favorable to us than terms available to or from independent third parties.

OUR CORPORATE HISTORY

We comprise NetDragon (Fujian), NetDragon (BVI), TQ Digital, TQ Online, NetDragon (USA), NetDragon (Shanghai), the Company, NetDragon (HK) and Glory More. NetDragon (Fujian) is responsible for our online game operation in the PRC while TQ Digital and TQ Online are responsible for our development of online games. NetDragon (USA) provides certain administrative and customer-related services in connection with the non-Chinese versions of our games while NetDragon (Shanghai) is responsible for our sales channel and customer services. NetDragon (BVI), Glory More

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and the Company are our intermediate and holding companies, respectively. NetDragon (HK) is our entity in Hong Kong since the GEM Listing. The corporate history of our group members are as follows:

NetDragon (Fujian)

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

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

Notes:

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

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

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

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

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

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

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

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

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

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NetDragon (BVI)

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

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

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

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

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

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TQ Digital

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

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

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

We had raised a net proceed of approximately HK\$1,386.2 million from the GEM Listing. To implement the planned business objectives, we increased the share capital of TQ Digital from RMB45,000,000 to RMB645,000,000 in January 2008 for injecting part of the fund raised for operation use. As at the Latest Practicable Date, we have fully paid up approximately RMB345,000,000 of the registered capital of TQ Digital whereas we are obliged to pay the outstanding registered capital within two years from the approval date in relation to the increase of the registered capital.

NetDragon (USA)

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

NetDragon (Shanghai)

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

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The Company

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

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

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

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

NetDragon (HK)

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

Glory More

Glory More, one of our wholly owned subsidiaries, was incorporated on 31 January 2008 in Hong Kong with limited liability. One subscriber share, being all the issued share capital of Glory More, was transferred at par to NetDragon (BVI) on 27 February 2008. Glory More is an investment holding company. There has been no change in the shareholding structure of Glory More since 27 February 2008.

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TQ Online

TQ Online, one of our wholly owned subsidiaries, was established on 18 March 2008 with limited liability in the PRC with a registered capital of RMB50,000,000. The current principal business activities of TQ Online are development of online games and licensing and servicing of the developed games. As at the Latest Practicable Date, we have paid up RMB50,000,000 of the registered capital of TQ Online whereas we are obliged to pay the outstanding registered capital within two years from the approval date in relation to the increase of the registered capital. Upon its establishment, TQ Online was wholly owned by Glory More. There has been no change in the shareholding of TQ Online since its establishment.

Corporate reorganisation

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

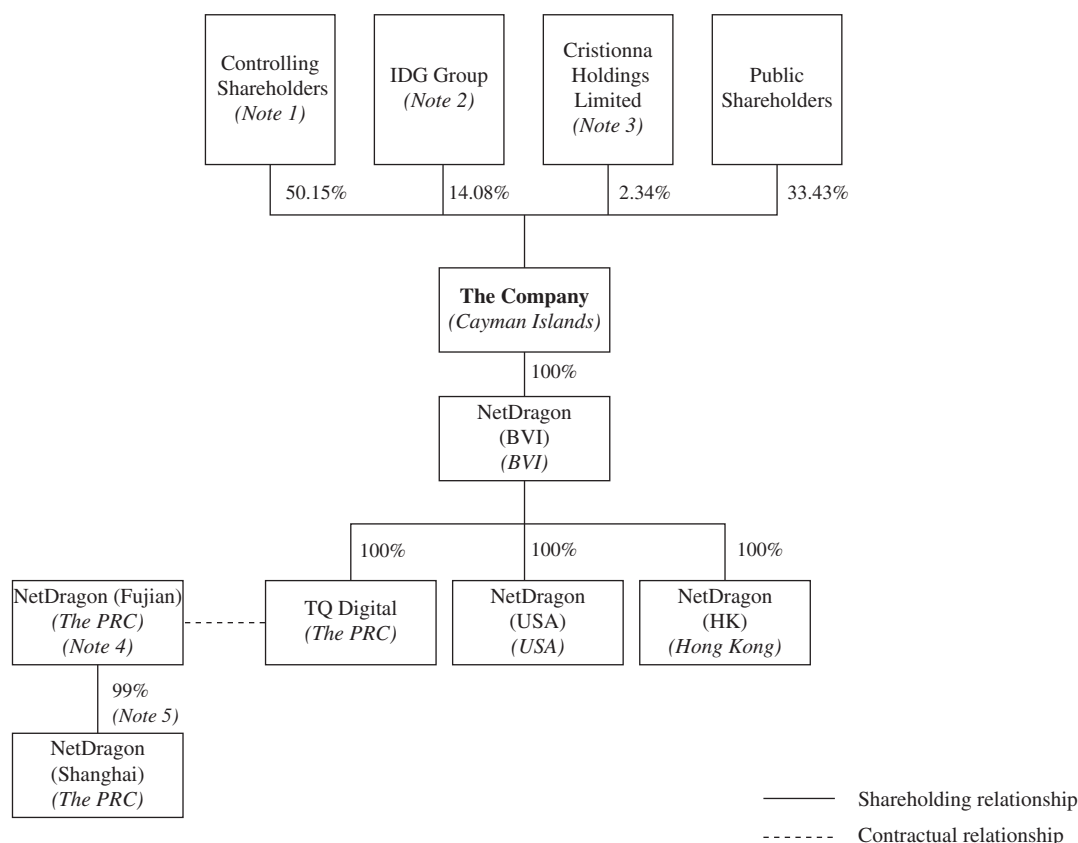
LISTING ON GEM

The GEM Listing was approved by the Stock Exchange and the Shares have been listed and traded on GEM since 2 November 2007 (stock code: 8288). As at the Latest Practicable Date, based on the closing price of HK\$10.68 per Share as quoted on GEM and the total number of Shares in issue of 540,232,860, the Company had a market capitalization of approximately HK\$5,769.7 million.

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SHAREHOLDING AND COMPANY STRUCTURE

The shareholding structure of the Company after the GEM Listing and immediately after the issue of Shares under the Over-allotment Option was as follows:



Notes:

1. The approximately 50.15% interest in the Company was owned as to:
 - (a) approximately 32.97% by DJM Holding Ltd., an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and owned as to approximately 95.4% and 4.6%, respectively, by each of Liu Dejian and Zheng Hui, both being executive Directors.
 - (b) approximately 6.38% by Fitter Property Inc, an investment holding company incorporated on 13 April 2006 in the BVI with limited liability and owned as to 100% by Zheng Hui, an executive Director.
 - (c) approximately 4.74% by Richmedia Holdings Limited, an investment holding company incorporated on 10 May 2004 in the BVI with limited liability and owned as to 100% by Liu Luyuan, an executive Director; and
 - (d) approximately 6.06% by Eagle World International Inc., an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and owned as to 100% by Flowson Company Limited, an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and owned as to 100% by Zheng Hui. Zheng Hui owns the voting rights in respect of the shares in Flowson Company Limited. Flowson Company Limited holds its indirect interest in the Shares as trustee for the benefit of the employees of the Group under a discretionary

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Notes:

1. The approximately 51.64% interest in the Company was owned as to:
 - (a) approximately 33.95% by DJM Holding Ltd., an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and owned as to approximately 95.4% and 4.6%, respectively, by each of Liu Dejian and Zheng Hui, both being executive Directors.
 - (b) approximately 6.57% by Fitter Property Inc, an investment holding company incorporated on 13 April 2006 in the BVI with limited liability and owned as to 100% by Zheng Hui, an executive Director.
 - (c) approximately 4.88% by Richmedia Holdings Limited, an investment holding company incorporated on 10 May 2004 in the BVI with limited liability and owned as to 100% by Liu Luyuan, an executive Director; and
 - (d) approximately 6.24% by Eagle World International Inc., an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and owned as to 100% by Flowson Company Limited, an investment holding company incorporated on 8 May 2007 in the BVI with limited liability and owned as to 100% by Zheng Hui. Zheng Hui owns the voting rights in respect of the shares in Flowson Company Limited. Flowson Company Limited holds its indirect interest in the Shares as trustee for the benefit of the employees of the Group under a discretionary trust. Under the terms of the trust, Zheng Hui has power to direct the exercise of the voting rights in respect of the trust's shares in Eagle World International Inc. As Eagle World International Inc. is interested in approximately 6.24% of the Company, Zheng Hui has power to direct the exercise of the voting powers in respect of the Shares held by Eagle World International Inc.
2. The IDG Group is comprised of five limited partnerships. Each member of the IDG Group is managed by its general partner, who has the full and exclusive power and authority to manage and control the fund and its business. Each member of the IDG Group also consists of limited partner or limited partners who merely play the passive function of injecting capital into the fund and have no voting or management rights. The members of the IDG Group are venture capital funds making investments in start-up to growth stage companies with PRC-related businesses on behalf of their respective limited partners.
3. Approximately 2.41% owned by Cristionna Holdings Limited, an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and owned as to approximately 99% by Chen Hongzhan, an executive Director, and approximately 1% by Liu Ming a director of NetDragon (USA).
4. NetDragon (Fujian) is owned as to approximately 96.05% by Liu Dejian, an executive Director, approximately 2.11% by Liu Luyuan, an executive Director, approximately 0.70% by Zheng Hui, an executive Director, approximately 0.64% by Chen Minlin, an employee of Fuzhou 851, and approximately 0.50% by Lin Yun, an employee of our Group.
5. The remaining 1% equity interests in NetDragon (Shanghai) are owned by Zheng Hui, an executive Director.

The above changes in the shareholding structure of the Company since the GEM Listing after issue of Share under the Over-allotment Option up to the Latest Practicable Date were principally resulted from the repurchases of Shares by the Company conducted during that period.