

The following are unaudited consolidated results of the Group for the three months ended 31 March 2008 together with the comparative figures for the last corresponding periods which are extracted from the first quarterly report of the Group published on 14 May 2008:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended	
		31 March	
		2008	2007
		RMB'000	RMB'000
Revenue	4	175,556	107,274
Cost of revenue		<u>(16,533)</u>	<u>(6,420)</u>
Gross profit		159,023	100,854
Other revenue and gains	4	5,375	537
Selling and marketing expenses		(15,436)	(12,774)
Administrative expenses		(25,907)	(10,983)
Development costs		(17,679)	(6,970)
Other operating expenses		<u>(7,908)</u>	<u>(5,488)</u>
Profit before income tax		97,468	65,176
Income tax expense	5	<u>(27,534)</u>	<u>(6,702)</u>
Profit for the period		<u>69,934</u>	<u>58,474</u>
Attributable to			
— Equity holders of the Company		69,986	58,377
— Minority interests		<u>(52)</u>	<u>97</u>
		<u>69,934</u>	<u>58,474</u>
Dividend	6	<u>—</u>	<u>44,839</u>
		RMB cents	RMB cents
Earnings per share	7		
— attributable to the equity holders of the Company		<u>12.79</u>	<u>16.35</u>

NOTES:**1. Company information**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 and is an investment holding company.

The Company's registered office is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

The Group is principally engaged in online game development, including game design, programming and graphics, and online game operation.

2. Basis of preparation

The Group's unaudited consolidated quarterly results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

3. Principal accounting policies

The unaudited consolidated quarterly results for the three months ended 31 March 2008 are prepared under the historical cost convention and the accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2007. The condensed consolidated quarterly results have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The unaudited consolidated quarterly results are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

4. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised:

- (i) The Group sells pre-paid game cards to distributors and online game players. With the pre-paid game cards, online game players can credit their online game accounts with game points which can be used for the consumption of certain online games of the Group or for purchasing virtual products or premium features for the consumption of other online games of the Group which are free-to-play. The game players can also credit their online user accounts directly. Such income received is deferred and recorded as deferred income under current liabilities and would be recognised as revenue (i.e. online game revenue) upon the actual usage of the game points. Revenue recognised in respect of operating the online games is net of any discounts, business tax and other related taxes and charges.
- (ii) Game development fee which arises from developing online games for customers is recognised as revenue by reference to the stage of completion of developing the respective online game. As game development fee is non-recurring revenue and developing online games for outsider is not a principal activity of the Group, such fee income is recognised as other revenue.
- (iii) Bank interest income is recognised on a time-proportion basis using the effective interest method.

- (iv) Grants from government are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other revenue and presented as such over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue and gains recognised are as follows:

	Three months ended 31 March	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Online game revenue	175,556	107,274
Other revenue and gains		
Grants from government	590	220
Bank interest income	4,785	183
Others	—	134
	<u>5,375</u>	<u>537</u>
	<u>180,931</u>	<u>107,811</u>

5. Income tax expense

- (i) The Group is not subject to any taxation under the jurisdictions of the Cayman Islands and the British Virgin Islands (“BVI”) for the periods ended 31 March 2007 and 2008. Provision for Hong Kong profits tax is not made as the Group does not derive any assessable profits in Hong Kong for the periods ended 31 March 2007 and 2008.
- (ii) PRC enterprise income tax (“EIT”) is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Fujian TQ Digital Inc. (“TQ Digital”), a subsidiary of the Company, is a foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 29 July 2005. 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, TQ Digital is entitled to a preferential income tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise on 16 August 2007. On 25 December 2003, TQ Digital was approved to be a software enterprise. 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 is entitled to tax benefits of tax exemption for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by 50% tax reduction for three years. 2003 was the first profitable year for TQ Digital. Accordingly, the EIT tax rate applicable to TQ Digital for the period ended 31 March 2007 was 7.5%.

Fujian NetDragon Websoft Co. Ltd. (“NetDragon (Fujian)”), another subsidiary of the Company, continued to be recognised as a hi-tech enterprise located in high technology industrial development zone on 9 November 2004. 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) as mentioned in the previous paragraph, NetDragon (Fujian) was entitled to paying EIT at the reduced tax rate of 15% for 2005 and 2006. Pursuant to a notice issued by a government authority (福建省科學技術廳) on 16 August 2007, NetDragon (Fujian) continued to be recognised as a hi-tech enterprise and is thereby subject to EIT tax rate of 15% for the period ended 31 March 2007.

Shanghai Tiankun Digital Technology Ltd., one of the subsidiaries of the Company, is subject to EIT tax rate of 33%.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Tax Law”) by order No. 63 of the president of the PRC, which became effective on 1 January 2008. According to the New Tax Law, the income tax rate applicable to the Group’s PRC subsidiaries is unified at 25%. According to the Circular of State Administration of Taxation Concerning Pre-Payment Issues Relevant to Enterprise Income Tax (國家稅務總局關於企業所得稅預繳問題的通知) issued by the State Administration of Taxation on 31 January 2008, TQ Digital and NetDragon (Fujian) which were recognised as hi-tech enterprises prior to 1 January 2008 shall provisionally subject to the EIT tax prepayment rate of 25%, pending further recognition in accordance with the New Tax Law.

As at the date of this report, TQ Digital and NetDragon (Fujian) are still not yet received any notifications relating to the recognition as hi-tech enterprises since 1 January 2008. Accordingly, the EIT tax rate applicable to TQ Digital and NetDragon (Fujian) for the period ended 31 March 2008 was 25%.

(iii) The USA income tax rates applicable to the Group are 34% for federal tax and 8.84% for state income tax.

6. Dividend

On 3 February 2007, NetDragon Websoft Inc., one of the Company’s subsidiaries and incorporated in the BVI, declared a special dividend of RMB44,839,000 to its then equity holders.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

7. Earnings per share

The earnings per share for the three months ended 31 March 2008 is calculated based on the unaudited consolidated profit attributable to equity holders of the Company for the period of RMB69,986,000 (three months ended 31 March 2007: RMB58,377,000) and the weighted average number of 547,369,602 (three months ended 31 March 2007: 357,076,618) ordinary shares in issue during the period.

Diluted earning per share has not been presented as there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

APPENDIX II
**THE UNAUDITED CONSOLIDATED RESULTS OF THE GROUP
FOR THE THREE MONTHS ENDED 31 MARCH 2008**
8. Reserves

For the three months ended 31 March 2007 and 2008, the movements of reserves are as follows:

	Share premium RMB'000	Capital contribution RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Translation reserve RMB'000	Dividend reserve RMB'000	Retained profits RMB'000	Total RMB'000
For the three months ended 31 March 2007 (unaudited)									
At 1 January 2007	16,267	21,755	—	11,596	6,768	(10)	—	46,749	103,125
Exchange difference arising on translation of overseas operations	—	—	—	—	—	431	—	—	431
Expense recognised directly in equity	—	—	—	—	—	431	—	—	431
Profit for the period	—	—	—	—	—	—	—	58,377	58,377
Total recognised income and expense for the period	—	—	—	—	—	431	—	58,377	58,808
Issue of shares by a subsidiary	69,984	(21,755)	—	170	—	—	—	—	48,399
Proposed dividend	—	—	—	—	—	—	—	(44,839)	(44,839)
At 31 March 2007	86,251	—	—	11,766	6,768	421	—	60,287	165,493
For the three months ended 31 March 2008 (unaudited)									
At 1 January 2008	1,379,483	—	8	9,946	61,216	(10,680)	216,093	71,985	1,728,051
Exchange difference arising on translation of overseas operations	—	—	—	—	—	(42,871)	—	—	(42,871)
Expense recognised directly in equity	—	—	—	—	—	(42,871)	—	—	(42,871)
Profit for the period	—	—	—	—	—	—	—	69,986	69,986
Total recognised income and expense for the period	—	—	—	—	—	(42,871)	—	69,986	27,115
Repurchase and cancellation of shares	(176,587)	—	1,137	—	—	—	—	(1,137)	(176,587)
At 31 March 2008	1,202,896	—	1,145	9,946	61,216	(53,551)	216,093	140,834	1,578,579