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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in NetDragon Websoft Inc. you should at once hand this circular and the accompanying proxy form to the purchaser(s) or transferee(s), or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**NetDragon Websoft Inc.**

**網龍網絡有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**SOMERLEY LIMITED**

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A letter from the Board is set out on pages 5 to 11 of this circular. A letter from the Independent Board Committee is set out on page 12 of this circular. A letter from Somerley, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 22 of this circular.

A notice convening the EGM to be held at Annapurna Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 7 June 2010 at 2:00 p.m. is set out on pages 36 to 37 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as practicable and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or adjourned meeting thereof (as the case may be) should you so wish.

19 May 2010

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

“Acquisition”	the acquisition of the entire equity interests of Fujian TianDi and the Debt pursuant to the Shares Transfer Agreement
“Board”	the board of Directors
“Business Day(s)”	day(s) (excluding Saturdays, Sundays and other public holidays) on which companies are generally open for business in the PRC
“BVI”	the British Virgin Islands
“Company”	NetDragon Websoft Inc., an exempted company incorporated in the Cayman Islands with limited liability, and the securities of which are listed on the Stock Exchange
“Completion”	completion of the Shares Transfer Agreement in accordance with its terms
“Completion Date”	the date on which the Completion shall take place on the tenth Business Day after the Conditions Fulfilment Date or at such later time or date as DJM and Main Honour may agree
“Conditions Fulfilment Date”	the date on which all conditions precedent to the Shares Transfer Agreement are fulfilled (or waived) pursuant to the terms of the Shares Transfer Agreement
“Consideration”	the sum of USD9,932,368 (equivalent to approximately HK\$77,131,000) for the entire equity interests in Fujian TianDi and the Debt, being the consideration for the Acquisition
“Controlling Shareholders”	the Group’s controlling shareholders (having the meaning ascribed thereto in the Listing Rules), being DJM, Fitter Property Inc., Richmedia Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan, Eagle World International Inc. and Flowson Company Limited
“Debt”	the shareholder’s loan of HK\$12,000,000, being the shareholder’s loan currently owing by Fujian TianDi to DJM as at the date of the Shares Transfer Agreement, which is non-trade in nature, unsecured, with an interest charged at 5% per annum and repayable within three (3) years from the date of the loan agreement entered into between Fujian TianDi and DJM on 28 November 2009
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“DJM”	DJM Holding Ltd., a company established in BVI on 30 October 2003, a Substantial Shareholder which is interested in approximately 35.01% of the issued share capital of the Company
“EGM”	an extraordinary general meeting of the Company to be held for the purpose of considering and approving the Acquisition and the transactions contemplated thereof
“Excluded Assets”	two luxury vehicles owned by Fujian TianDi, of which the executive Directors consider are not valuable to the development of the Group and which will be transferred to DJM or its designated party with such consideration to be payable directly by the purchaser to DJM within 180 Business Days after the Completion
“Fujian TianDi”	FuJian TianDi Animation Technologies Co. Ltd. (福建天棣動漫科技有限公司), a company registered in the PRC with limited liability on 19 February 2008, whose business scope includes digital animation and digital three dimensional development, software development and information consultation services and whose equity interest is wholly owned by DJM
“Group”	the Company, its subsidiaries and such entities which are considered as subsidiaries of the Company under the applicable accounting standard and policy
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	comprises of three independent non-executive Directors of the Company
“Independent Financial Adviser” or “Somerley”	Somerley Limited, a corporation licensed by the SFC to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Shares Transfer Agreement and the transactions contemplated thereof
“Independent Shareholder(s)”	Shareholder(s) which is(are) independent from and not connected with any of the Directors, chief executive or Substantial Shareholders of the Company or any of its subsidiaries or any of their respective associates

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## DEFINITIONS

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“Independent Valuer”	Asset Appraisal Limited, an independent valuer not connected with the Company and its connected persons (as defined under the Listing Rules)
“PRC Legal Adviser”	Jingtian&Gongcheng, a qualified PRC legal adviser not connected with the Company and its connected persons (as defined under the Listing Rules)
“Latest Practicable Date”	14 May 2010
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	31 July 2010 or such other date as agreed between Main Honour and DJM
“Main Honour”	Main Honour Holdings Limited, a company incorporated in Hong Kong with limited liability on 1 April 2010 and an indirectly wholly-owned subsidiary of the Company
“NetDragon (Fujian)”	Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) formerly known as Fuzhou NetDragon Websoft Co., Ltd. (福州網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999, and through the Structure Contracts, TQ Digital and TQ Online is able to control NetDragon (Fujian) and accordingly, regarded as our subsidiary
“NetDragon (Shanghai)”	Shanghai Tiankun Digital Technology Ltd. (上海天坤數碼科技有限公司), a company established in the PRC with limited liability on 20 December 2004, and through the Structure Contracts, TQ Digital and TQ Online is able to control NetDragon (Shanghai) and accordingly, regarded as our subsidiary
“Owned Land”	a parcel of land located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (中國福建省長樂市湖南鎮大鶴村) with a site area of approximately 197,664 sq.m. which is currently owned by the Group
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau, Special Administrative Region of the PRC and Taiwan)
“Property”	buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (中國福建省長樂市湖南鎮大鶴村)

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## DEFINITIONS

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“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	The Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares Transfer Agreement”	the agreement entered into between Main Honour, as the purchaser, with DJM, as the vendor, pursuant to which DJM agreed to sell and Main Honour agreed to purchase the entire equity interests of Fujian TianDi and the Debt
“Share(s)”	the ordinary share(s) of USD0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“sq. m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structure Contracts”	contain contracts entered into among our subsidiaries and affiliates, particulars of which are set out in the “Structure Contracts” in the latest published annual report of the Company
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“TQ Digital”	Fujian TQ Digital Inc (福建天晴數碼有限公司), formerly known as Fujian TQ Digital Ind (福建天晴數碼有限公司) and Fuzhou TQ Digital Ind (福州天晴數碼有限公司), a wholly foreign owned enterprise established in the PRC on 28 February 2003, which is indirectly wholly and beneficially owned by the Company
“TQ Online”	Fujian TQ Online Interactive Inc. (福建天晴在綫互動科技有 限公司), a wholly foreign owned enterprise established in the PRC on 18 March 2008, which is indirectly wholly and beneficially owned by the Company
“USD”	US Dollar, the lawful currency of the United State of America

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## LETTER FROM THE BOARD OF DIRECTORS

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### NetDragon Websoft Inc.

### 網龍網絡有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

*Executive Directors:*

Liu Dejian (*Chairman*)

Liu Luyuan

Zheng Hui

Chen Hongzhan

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Non-executive Director:*

Lin Dongliang

*Head office and principal place  
of business in Hong Kong:*

Unit 2209, 22nd Floor

West Tower, Shun Tak Centre

200 Connaught Road Central

Hong Kong

*Independent non-executive Directors:*

Chao Guowei, Charles

Lee Kwan Hung

Liu Sai Keung, Thomas

19 May 2010

*To the Shareholders*

Dear Sir or Madam

### DISCLOSEABLE AND CONNECTED TRANSACTION

#### INTRODUCTION

On 6 May 2010, Main Honour, as the purchaser, entered into the Shares Transfer Agreement with DJM, as the vendor, to purchase the entire equity interests in Fujian TianDi and the Debt both payable in cash in one lump sum on Completion subject to the terms contained therein.

The Acquisition constitutes a discloseable and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules and is subject to, among others, approval of the Independent Shareholders. The Company will seek approval from the Independent Shareholders for the Acquisition and the transactions contemplated therein at the EGM.

The purpose of this circular is to provide the Shareholders with, among other things, (i) details of the Acquisition; (ii) the recommendation of the Independent Board Committee regarding the Shares Transfer Agreement and the transactions contemplated thereunder to the Independent

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## LETTER FROM THE BOARD OF DIRECTORS

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Shareholders; (iii) a letter from Somerley, the Independent Financial Adviser, containing its advice to the Independent Board Committee and Independent Shareholders on the Shares Transfer Agreement and the transactions contemplated thereunder; (iv) a valuation report from the Independent Valuer on the valuation of the Property; (v) a notice to convene the EGM; and (vi) other information required under the Listing Rules.

### THE SHARES TRANSFER AGREEMENT

#### *Date*

6 May 2010

#### *Parties*

1. Main Honour, as the purchaser. Main Honour is an indirectly wholly-owned subsidiary of the Company and its main business is investment holding.
2. DJM, as the vendor. DJM is a Substantial Shareholder whereas Liu Dejian, a Director, is interested in approximately 95.40% of the issued share capital of DJM. Accordingly, DJM is a connected person of the Company under the Listing Rules. As at the date hereof, DJM owns all the equity interests in Fujian TianDi.

#### *Sale and purchase*

Pursuant to the Shares Transfer Agreement, DJM agreed to sell, and Main Honour agreed to purchase, the entire equity interests in Fujian TianDi and the Debt both payable in cash in one lump sum on Completion subject to the terms contained therein.

#### *Conditions precedent:*

Completion is conditional upon the satisfaction of a number of conditions precedents, being:

- (a) due diligence investigations having been conducted on the business and financial positions of Fujian TianDi and the results of such investigations are to the satisfaction of Main Honour;
- (b) Main Honour having obtained PRC legal opinions from a PRC legal adviser acceptable to Main Honour in the form and substance to the satisfaction of Main Honour, concerning:
  - (i) the good title and no encumbrance of the Property; and
  - (ii) the due incorporation, valid existence and due capacity of Fujian TianDi to carry out its current business and hold the Property;
- (c) approval by the Independent Shareholders at the EGM for the Shares Transfer Agreement and the transactions contemplated therein; and



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## LETTER FROM THE BOARD OF DIRECTORS

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- (d) all other necessary approval, permits, consents and authorisations having been obtained for the transactions contemplated under the Shares Transfer Agreement, whether pursuant to law, regulatory compliance (including but without limitation to the Listing Rules) or otherwise.

If any of the above conditions have not been satisfied (or in respect of conditions (a) and (b) above only, which have not previously been waived by Main Honour) on or before 5:00 p.m. (Hong Kong time) on the Longstop Date, Main Honour may on that date, at its option (but without prejudice to any other right or remedy it may have), by notice to DJM, rescind the Shares Transfer Agreement.

### *Consideration*

The Acquisition was negotiated on an arm's length basis and the Consideration of USD9,932,368 (equivalent to approximately HK\$77,131,000) was determined by reference to (i) the sum of RMB57,254,658 (equivalent to approximately HK\$65,129,000), being the net asset value of Fujian TianDi as of 31 March 2010 adjusted by the independent valuation of the Property minus the net book value of the Excluded Assets; (ii) the sum of HK\$12,000,000, being the value of the Debt which is added as part of the Consideration. The valuation on the Property was carried out by the Independent Valuer. The valuation performed by the Independent Valuer on 31 March 2010 on the Property by using the direct comparison approach is RMB58,000,000 (equivalent to approximately HK\$65,977,000).

The Group will pay the Consideration by using its internal resources and the Consideration is payable in one lump sum by the Group to DJM on the Completion Date.

### **INFORMATION OF FUJIAN TIANDI**

As at the date of this circular, Fujian TianDi is a limited liability company duly established under the laws of the PRC on 19 February 2008 having a registered capital and a paid up capital of RMB50,000,000 which has been fully paid up by DJM and the entire equity interests of Fujian TianDi is owned by DJM. The business scope of Fujian TianDi includes digital animation and digital three dimensional development, software development and information consultation services. As at the date of this circular, Fujian TianDi is still at the preparation stage for the operation of its business and its principal asset is the Property.

The Property comprises (i) two parcels of land with a total site area of approximately 164,517 sq. m. and a gross floor area of approximately 14,868 sq. m.; and (ii) a water coastal area of approximately 129,196 sq. m.. The land use rights of the Property are for industrial (recreational equipment and entertaining product manufacturing) uses whereas the sea use rights of the Property are for tourist and entertainment and marine amusement park uses. The premises of the Property include a two-storey industrial/office building, a two-storey dormitory building, a canteen building, a power substation and a dry cleaning station.

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## LETTER FROM THE BOARD OF DIRECTORS

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The total costs incurred by Fujian TianDi for acquiring (i) the land use rights of the Property and the relevant deed tax; and (ii) the construction costs of the subject premises on the Property which have been paid by Fujian TianDi were approximately RMB28,468,541 (equivalent to approximately HK\$32,384,000) and approximately RMB16,506,601 (equivalent to approximately HK\$18,777,000), respectively. The paid-up capital, amounting to RMB50,000,000 (equivalent to approximately HK\$56,877,000), has been fully paid-up by DJM. In addition, DJM had advanced the Debt in the sum of HK\$12,000,000 for the initial operation of Fujian TianDi.

In accordance with the PRC generally accepted accounting principles, the net asset value as audited by the PRC auditors engaged by Fujian TianDi as at 31 December 2009 is approximately RMB48,113,388 (equivalent to approximately HK\$54,731,000). In accordance with the PRC generally accepted accounting principles and pursuant to the audited financial statements of Fujian TianDi, Fujian TianDi has recorded a net loss for each of the two years ended 31 December 2009 of approximately RMB53,013 (equivalent to approximately HK\$60,000) and RMB1,872,350 (equivalent to approximately HK\$2,130,000), respectively. The reason for such loss is mainly due to the constructions of the premises on the Property and such other administrative and consultancy expenses thereof during the relevant years.

Based on the unaudited management accounts of Fujian TianDi as at 31 March 2010, the net asset value of Fujian TianDi as at 31 March 2010 adjusted by the independent valuation of the Property and including the net book value of the Excluded Assets is approximately RMB62,582,579 (equivalent to approximately HK\$71,190,000) and Fujian TianDi has recorded a net loss without the adjustment of the independent valuation of the Property for the three months ended 31 March 2010 of approximately RMB712,954 (equivalent to approximately HK\$811,000).

### REASONS FOR THE ACQUISITION

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

On 26 February 2010, the Group acquired the Owned Land from The State Land Resource Bureau of Changle City, Fujian Province (福建省長樂市國土資源局) through a tender process and at a consideration of approximately RMB33,208,000 (equivalent to approximately HK\$37,775,000). The applicable percentage ratio(s) (as calculated in accordance with Rule 14.07 of the Listing Rules) for the acquisition of the Owned Land is less than 5% and therefore, the acquisition of the Owned Land is not subject to the disclosure requirements under Chapter 14 of the Listing Rules.

It is the current intention of the executive Directors to develop the Property and the Owned Land as (i) an education centre for online game design and animation experts; (ii) an interactive convention centre for online game and animation products; and (iii) the Group's new head office and staff quarters. The executive Directors consider that the education centre can provide the Group experts in online game design and animation, which in turn, enhances the productivity and innovation capacity of the Group. The interactive convention centre can also provide a solid platform to promote the

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## LETTER FROM THE BOARD OF DIRECTORS

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Group's online games as well as other online game and animation products. In addition, due to years of development, the Group has been looking for properties as its new office and staff quarters to cope with its expansion and development. The Property and the Owned Land provide appropriate premises for such purposes.

The Property was initially DJM's investment project for its own investment in the comic and animation industry in the project of Haixi Animation Creativity City (海西動漫創意之都) (the "Project"), one of the major development projects for the construction of Haixi district implemented by the PRC government and arranged by the government of the Changle City of the Fujian Province. The Project is aimed to invite companies to set up headquarters in the Haixi district in order to bring up the district's importance and economy. The executive Directors consider that the already built premises are suitable to serve the abovementioned purposes for the Group to participate in the Project as the representative company in the online game industry in the Fujian Province. It can further strengthen the corporate image of the Group as well as to cope with the Group's expansion plan. Further, the right to use the coastal sea area of the Property can be used for client relationship and corporate events as well as for staff's leisure activities.

There were commitments of approximately RMB16,000,000 (equivalent to approximately HK\$18,201,000) for the continuous constructions and decorations of the Property and the Owned Land as at the Latest Practicable Date. Such commitments will be taken up and payable by the Group upon the Completion. Except for such commitments, no concrete legally binding plan or commitment on the further development of the Owned Land has been finalised. Nonetheless, the executive Directors believed that the Acquisition will enhance the value of the Owned Land and the Property as a whole which will be more suitable for the potential expansion of the Group's business in the industry.

The development of the Property and the Owned Land is subject to any necessary adjustment having regard to the then actual circumstances. If such plan or commitment materialises, the Company will fulfill its obligations (if any) in accordance with the applicable Listing Rules.

Based on the information available to the Group, the Directors are of the view the Acquisition is made on normal commercial terms, that its terms are fair and reasonable, and that the Acquisition and its terms are in the interests of the Group and the Shareholders as a whole.

### DISCLOSEABLE AND CONNECTED TRANSACTION

Save for the new service agreement dated 29 December 2009 entered into between Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司) and the Group on 29 December 2009, details of which are set forth in the announcement of the Company dated 31 December 2009, there were no transactions entered into between the Group and DJM or any of its associates (as defined in the Listing Rules) in the past 12 months. Given the nature of the aforesaid transaction is different from the Acquisition, the Directors consider that the Acquisition shall not be aggregated with the aforesaid transactions under Rules 14A.25 and 14A.26 of the Listing Rules.

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## LETTER FROM THE BOARD OF DIRECTORS

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As the applicable percentage ratio(s) (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. If the Consideration is aggregated with the acquisition cost of the Owned Land and the commitments of approximately RMB16,000,000 (equivalent to approximately HK\$18,201,000) for the continuous constructions and decorations of the Property and the Owned Land, the applicable percentage ratio(s) (as calculated in accordance with Rule 14.07 of the Listing Rules) is still less than 25%. In addition, DJM is a Substantial Shareholder whereas Liu Dejian, a Director, is interested in approximately 95.40% of the issued share capital of DJM. Accordingly, DJM is a connected person of the Company under the Listing Rules. The Acquisition therefore constitutes a connected transaction and is subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the EGM.

DJM, which has a material interest in the Acquisition, and its associates (as defined in the Listing Rules) will abstain from voting at the EGM on the resolutions in relation to the Shares Transfer Agreement and the transactions contemplated thereunder in view of its interests thereof. As at the Latest Practicable Date, DJM and its associates together hold approximately 51.74% of all the Shareholders' voting rights.

### RECOMMENDATIONS

An Independent Board Committee comprising three independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Shares Transfer Agreement and the transactions contemplated thereunder. Each of the members of the Independent Board Committee does not have any interest in the Shares Transfer Agreement and the transactions contemplated thereunder.

The Company has appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Shares Transfer Agreement and the transactions contemplated thereof.

The Independent Board Committee, after taking into account the recommendation of the Independent Financial Adviser, considers that the Acquisition and the transactions contemplated thereof are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the resolutions to approve the Acquisition and the transactions contemplated thereof at the EGM. The Shareholders' attention is drawn to the letter from the Independent Board Committee which is set forth on page 12 of this circular.

A separate letter from the Independent Financial Adviser, Somerley, containing its advice to the Independent Board Committee and the Independent Shareholders is set forth on pages 13 to 22 of this circular. The Shareholders' attention is also drawn to the letter from the Independent Financial Adviser.

The Board is of the view that the Acquisition and the transactions contemplated thereof are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and, accordingly, the Board recommends that the Independent Shareholders to vote in favour of the resolutions to be proposed in relation to the Acquisition and the transactions contemplated thereof at the EGM.

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## LETTER FROM THE BOARD OF DIRECTORS

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### EGM

A notice convening the EGM is set out on pages 36 to 37 of this circular. Voting at the EGM will be taken on a poll.

A notice convening the EGM to be held at Annapurna Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 7 June 2010 at 2:00 p.m. is set out on pages 36 to 37 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as practicable and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or adjourned meeting thereof (as the case may be) should you so wish.

### ADDITIONAL INFORMATION

Your attention is also drawn to the valuation report and the general information set out in the appendices of this circular.

*For the purpose of this circular, conversions of RMB into HK\$ and USD into HK\$ are calculated at the conversion rates of HK\$0.87909 to RMB1.00 and HK\$7.7656 to USD1.00, respectively. These conversion rates are for purpose of illustration only and do not constitute a representation that any amounts have been, could have been, or may be, converted at this or any other rates at all.*

Yours faithfully  
For and on behalf of the Board  
**NetDragon Websoft Inc.**  
Liu Dejian  
Chairman

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular:*



**NetDragon Websoft Inc.**

**網龍網絡有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

19 May 2010

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to the circular of the Company dated 19 May 2010 (the “**Circular**”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the Shares Transfer Agreement and the transactions contemplated thereof. Somerley has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 13 to 22 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendices thereto.

#### **RECOMMENDATIONS**

Having considered the terms of the Shares Transfer Agreement and taking into account the advice and recommendation of the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that the terms of the Shares Transfer Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Shares Transfer Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of  
the Independent Board Committee

**Chao Guowei, Charles**  
*Independent Non-executive  
Director*

**Lee Kwan Hung**  
*Independent Non-executive  
Director*

**Liu Sai Keung, Thomas**  
*Independent Non-executive  
Director*

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## LETTER FROM SOMERLEY

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*Set out below is the text of the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of inclusion in this Circular.*



**SOMERLEY LIMITED**  
10th Floor  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

19 May 2010

To: The Independent Board Committee and  
the Independent Shareholders of NetDragon Websoft Inc.

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION RELATING TO ACQUISITION OF FUJIAN TIANDI**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed Acquisition by Main Honour, an indirectly wholly-owned subsidiary of the Company, from DJM, the entire equity interests in Fujian TianDi and the Debt pursuant to the Shares Transfer Agreement. Fujian TianDi's principal asset is the Property, which is located in Fujian Province of the PRC. Details of the Shares Transfer Agreement are contained in the circular to the Shareholders dated 19 May 2010 (the "**Circular**"), of which this letter forms a part. Unless otherwise defined, terms used in this letter shall have the same meanings as defined in the Circular.

As the applicable percentage ratio(s) (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition is more than 5% but less than 25%, the Acquisition therefore constitutes a discloseable transaction for the Company under the Listing Rules.

DJM is a Substantial Shareholder whereas Mr. Liu Dejian, a Director, is interested in approximately 95.4% of the issued share capital of DJM. Accordingly, DJM is a connected person of the Company under the Listing Rules. The Acquisition therefore constitutes a connected transaction for the Company under the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Independent Shareholders under the Listing Rules.

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## LETTER FROM SOMERLEY

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The Independent Board Committee, comprising all three independent non-executive Directors, namely, Mr. Chao Guowei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas, has been established to advise the Independent Shareholders regarding the fairness and reasonableness of the Shares Transfer Agreement. We, Somerley, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not connected with the Company, DJM, their respective substantial shareholders and/or associates and accordingly are considered suitable to give independent financial advice on the above matters. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, DJM, their respective substantial shareholders and/or associates.

In formulating our opinion and recommendation, we have reviewed, amongst others, the Shares Transfer Agreement, the audited financial statements of Fujian TianDi which were audited by the PRC auditors as engaged by Fujian TianDi for the year ended 31 December 2009 and the unaudited management accounts of Fujian TianDi for the three months ended 31 March 2010, the valuation of the Property as at 31 March 2010 as contained in the valuation report dated 19 May 2010 as set out in Appendix I to this Circular (the “**Valuation Report**”), the annual reports of the Company for each of the years ended 31 December 2009 (the “**2009 Annual Report**”) and 2008 (the “**2008 Annual Report**”) and the information contained in the Circular. We have also discussed the valuation methodology and bases and assumptions for the valuation of the Property with the Independent Valuer.

We have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and the management of the Group, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the date of this letter and will remain as at the date of the EGM. We have sought and received confirmation from the executive Directors and management of the Group that no material facts have been omitted from the information supplied and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group, DJM, Fujian TianDi or their subsidiaries and/or associates nor have we carried out any independent verification of the information supplied.



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## LETTER FROM SOMERLEY

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### PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In arriving at our opinion and recommendation, we have taken into account the principal factors and reasons set out below.

#### 1. Principal business activities of the Group

The Group is principally engaged in online game development including game design, programming and graphics, and online game operation. Set out below is the summary of the Group's audited financial information for the years ended 31 December 2007, 2008 and 2009 as extracted from the 2008 Annual Report and the 2009 Annual Report:

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	645,214	595,981	621,836
<b>Gross profit</b>	608,351	527,964	537,511
<b>Profit attributable to owners of the Company</b>	374,854	239,381	87,108

Following a slight downturn in 2008, the Group recorded revenue of approximately RMB621.8 million in 2009, represented an increase of approximately 4.3% as compared to that of 2008. The increase in revenue was mainly driven by a major game launch of the Chinese version of Way of the Five. However, the profit attributable to the owners of the Company in 2009 decreased by 63.6% to approximately RMB87.1 million from prior year, which was chiefly due to a significant increase in development costs of approximately RMB111.6 million as compared to that of 2008 attributable to, among others: (i) the continual increase in staff costs for addressing and resolving the issues of private servers; (ii) the continual increase in collaboration with outside service companies for design and development; (iii) the expansion into new game development projects and new business lines; and (iv) the increase in the number of development staff from 1,465 as at 31 December 2008 to 1,804 as at 31 December 2009.

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## LETTER FROM SOMERLEY

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	<b>Year ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>	66,572	132,608	183,543
<b>Current assets</b>			
Bank deposits, bank balances and cash	1,701,380	961,463	1,257,023
Other current assets	<u>76,708</u>	<u>426,339</u>	<u>111,545</u>
	1,778,088	1,387,802	1,368,568
<b>Current liabilities</b>	(75,278)	(66,599)	(96,290)
<b>Net current assets</b>	1,702,810	1,321,203	1,272,278
<b>Capital and reserves</b>	1,769,382	1,453,811	1,455,821

The Group has a significant current asset base, majority of which comprises bank deposits, bank balances and cash. The significant cash position reflects the nature of the business and provides adequate financial resources to finance development projects when the need arises.

The Group recognises the valuable contributions brought by its human capital and has placed equal importance to its human resources development and customer service experience. As set out in the 2009 Annual Report, the Group was named one of PRC's "List of Potential Enterprises in China" by Forbes China in 2009 and the "Excellent Employer — 2009 Excellent Chinese Company for Employee" by Fortune China. The management of the Company is of the view that attracting and retaining talented individuals to work for the Group is essential for the success of the Group and creating pleasant working area not only improves the sense of belonging amongst the staff but also helps enhancing their efficiency and creativity. The Group has been all-along looking for properties as its enlarged training and convention facilities and new corporate head office to house its creative workforce and to provide better training and working environment for its workforce.

## 2. Background of Fujian TianDi and the Property

### (i) Location and details of the Property

The Property comprises (i) two parcels of land with a total site area of approximately 164,517 sq.m. and a gross floor area of approximately 14,868 sq.m. located in 福建省長樂市湖南鎮大鶴村 (Dahe Village, Hunan Town, Changle City, Fujian Province), the land use rights of which were granted by 福建省長樂市國土資源局 (The State Land Resources Bureau of Changle City, Fujian Province) for industrial (recreational equipment and entertaining product manufacturing) uses and will expire in 2059; and (ii) a water coastal area of approximately 129,196 sq.m. adjacent to the two aforesaid parcels of land, the sea use rights of which were granted by 長樂市海洋與漁業局 (Changle City Ocean and Fishery Bureau) for tourist, entertainment and marine amusement park uses and will expire in 2034. The land use

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## LETTER FROM SOMERLEY

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rights were acquired by Fujian TianDi in October 2008, together with the relevant deed tax, with an original purchase cost of approximately RMB28.5 million (equivalent to approximately HK\$32.4 million). The sea use rights of the water coastal area were acquired by Fujian TianDi in August 2009 by way of annual payment of sea use rights fee.

The Property is adjoined to the Owned Land owned by the Group. The nearby area is a special designated zone as prescribed by the Changle City government to develop the animation industry.

Construction has been commenced at the Property and premises with a total gross floor area of approximately 14,868 sq.m. have been built. The premises of the Property include a 2-storey industrial/office building, a 2-storey dormitory building, a canteen building, a power substation and a dry cleaning station. The construction costs of the premises of the Property incurred, up to 31 March 2010, was approximately RMB16.5 million (equivalent to approximately HK\$18.8 million). Further constructions and decorations are expected to be carried out at the Property and the Owned Land with commitments made so far of approximately RMB16.0 million (equivalent to approximately HK\$18.2 million).

(ii) *Background of and financial information on Fujian TianDi*

Fujian TianDi is a company established on 19 February 2008 under the laws of the PRC and a wholly-owned subsidiary of DJM. The business scope of Fujian TianDi includes digital animation and digital three dimensional development, software development and information consultation services. As at the Latest Practicable Date, Fujian TianDi is still at the preparation stage for the operation of its business and its principal asset is the Property.

Set out below is the summarised financial information on Fujian TianDi for the year ended 31 December 2009 and the three months ended 31 March 2010 prepared according to the PRC generally accepted accounting principles:

	<b>For the year ended 31 December 2009 (audited) RMB'000</b>	<b>For the three months ended 31 March 2010 (unaudited) RMB'000</b>
<b>Revenue</b>	—	—
<b>Net loss after taxation</b>	(1,872)	(713)

As set out in the table above, since the Property is under construction, it has recorded no revenue but net losses during the relevant period. The losses were mainly due to the expenses incurred for the constructions of the premises on the Property and such other administrative and management expenses arise thereof.

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**LETTER FROM SOMERLEY**

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	<b>As at 31 December 2009 (audited) <i>RMB'000</i></b>	<b>As at 31 March 2010 (unaudited) <i>RMB'000</i></b>
<b>Non-current assets</b>		
Construction in progress and fixed assets	20,283	20,388
Intangible assets	<u>28,041</u>	<u>27,899</u>
	48,324	48,287
<b>Current assets</b>		
Cash and cash equivalents	10,765	9,570
Other current assets	<u>423</u>	<u>307</u>
	11,188	9,877
<b>Current liabilities</b>	<u>(833)</u>	<u>(213)</u>
<b>Non-current liability</b>	<u>(10,566)</u>	<u>(10,551)</u>
<b>Net asset value</b>	48,113	47,400

The assets of Fujian TianDi principally comprise the Property, including the land use rights and the premises, and cash, while its non-current liability is primarily the Debt, being an advance from DJM for the initial operation of Fujian TianDi.

There are commitments of approximately RMB16.0 million (equivalent to approximately HK\$18.2 million) for the continuous constructions and decorations of the Property and the Owned Land as at the Latest Practicable Date. Such commitments will be taken up and payable by the Group upon Completion.

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## LETTER FROM SOMERLEY

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### 3. Reasons for and benefits of the Acquisition

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

On 26 February 2010, the Group acquired the Owned Land from 福建省長樂市國土資源局 (The State Land Resource Bureau of Changle City, Fujian Province) through a tender process and at a consideration of approximately RMB33.2 million (equivalent to approximately HK\$37.8 million).

It is the current intention of the executive Directors to develop the Property and the Owned Land as (i) an education centre for online game design and animation experts; (ii) an interactive convention centre for online game and animation products; and (iii) the Group's new head office and staff quarters. The executive Directors consider that the education centre can provide the Group with experts in online game design and animation, which in turn, enhances the productivity and innovation capacity of the Group. The interactive convention centre can also provide a solid platform to promote the Group's online games as well as other online game and animation products. In addition, due to years of development, the Group has been looking for properties as its new office and staff quarters to cope with its expansion and development. The Property and the Owned Land provide appropriate premises for such purposes.

The Property was initially DJM's investment project for its own investment in the comic and animation industry in the project of 海西動漫創意之都 (Haixi Animation Creativity City) (the "Project"), one of the major development projects for the construction of Haixi district implemented by the PRC government and arranged by the government of the Changle City of Fuzhou in Fujian Province. The Project is aimed to invite companies to set up headquarters in the Haixi district in order to bring up the district's importance and economy. The executive Directors consider that the already-built premises are suitable to serve the abovementioned purposes for the Group to participate in the Project as the representative company in the online game industry in Fujian Province. It can further strengthen the corporate image of the Group as well as to cope with the Group's expansion plan. Further, the right to use the coastal sea area of the Property can be used for client relationship and corporate events as well as for staff's leisure activities.

The executive Directors believed that the Acquisition will enhance the value of the Property and the Owned Land as a whole which will be more suitable for the potential expansion of the Group's business in the industry.

Based on the information available to the Group, the Directors are of the view that the Acquisition is made on normal commercial terms, that its terms are fair and reasonable, and that the Shares Transfer Agreement and its terms are in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM SOMERLEY

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### 4. Principal terms of the Shares Transfer Agreement

Pursuant to the Shares Transfer Agreement, Main Honour, an indirectly wholly-owned subsidiary of the Company, has agreed to acquire from DJM the entire equity interests in Fujian TianDi and the Debt for the Consideration of USD9,932,368 (equivalent to approximately HK\$77,131,000).

(i) *Consideration*

The Acquisition was negotiated on an arm's length basis and the Consideration was determined by reference to (i) the sum of RMB57,254,658 (equivalent to approximately HK\$65,129,000), being the net asset value of Fujian TianDi as at 31 March 2010 adjusted by the independent valuation of the Property minus the net book value of the Excluded Assets; and (ii) the sum of HK\$12,000,000, being the value of the Debt. The valuation on the Property was carried out by the Independent Valuer, the report of which has been set out in Appendix I to this Circular. The valuation performed by the Independent Valuer on 31 March 2010 on the Property by using the direct comparison approach was RMB58,000,000 (equivalent to approximately HK\$65,977,000).

The Consideration shall be fully settled in one lump sum cash payment by the Group at the Completion Date with its internal resources.

(ii) *Conditions precedent:*

Completion is conditional upon the satisfaction of a number of conditions precedent, being:

- (a) due diligence investigations having been conducted on the business and financial positions of Fujian TianDi and the results of such investigations are to the satisfaction of Main Honour;
- (b) Main Honour having obtained the PRC legal opinions from a PRC Legal Adviser acceptable to Main Honour in the form and substance to the satisfaction of Main Honour, concerning:
  - (i) the good title and no encumbrance of the Property; and
  - (ii) the due incorporation, valid existence and due capacity of Fujian TianDi to carry out its current business and hold the Property;
- (c) approval by the Independent Shareholders at the EGM for the Shares Transfer Agreement and the transactions contemplated therein; and
- (d) all other necessary approval, permits, consents and authorisations having been obtained for the transactions contemplated under the Shares Transfer Agreement, whether pursuant to law, regulatory compliance (including but without limitation to the Listing Rules) or otherwise.

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## LETTER FROM SOMERLEY

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If any of the above conditions have not been satisfied (or in respect of conditions (a) and (b) above only, which have not previously been waived by Main Honour) on or before 5:00 p.m. (Hong Kong time) on the Longstop Date, Main Honour may on that date, at its option (but without prejudice to any other right or remedy it may have), by notice to DJM, rescind the Shares Transfer Agreement.

(iii) *Completion*

The Completion will take place on the tenth Business Day after the date on which all conditions precedent to the Shares Transfer Agreement are fulfilled (or waived) pursuant to the terms of the Shares Transfer Agreement or at such later time or date as DJM and Main Honour may agree.

### **5. Evaluation of the Consideration**

As the principal asset of Fujian TianDi is the Property, we consider that the basis of determining the Consideration with reference to net asset value to be appropriate. The adjusted fair market value of Fujian TianDi is based on the net asset value and adjusted with the open market value of the Property as valued by the Independent Valuer as at 31 March 2010.

According to the Valuation Report which is issued by the Independent Valuer as set out in the Appendix I to this Circular, as at 31 March 2010, the market value in existing state of the Property was RMB58,000,000 (equivalent to approximately HK\$65,977,000). We have reviewed and discussed with the Independent Valuer regarding the methodology of, and bases and assumptions adopted for the valuation and noted that the Independent Valuer has adopted the direct comparison approach by making reference to sales data of comparable properties as available in the relevant market. The methodology is, in our opinion, a reasonable approach in establishing the open market value of the Property.

The Consideration was determined on a dollar-to-dollar basis based on the (i) net asset value of Fujian TianDi as at 31 March 2010 adjusted by the independent valuation of the Property minus the net book value of the Excluded Assets; and (ii) the Debt.

Having considered the above, in particular, the net asset value of Fujian TianDi as at 31 March 2010 having adjusted for the independent valuation of the Property, we are of the view that the basis of the Consideration are fair and reasonable.

### **6. Financial impacts of the Acquisition**

(i) *Earnings*

Following Completion, the results of Fujian TianDi will be consolidated into the consolidated financial statements of the Group. It is expected that the Acquisition will not result in any gain or loss on the statement of comprehensive income of the Group. As discussed above,

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## LETTER FROM SOMERLEY

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Fujian TianDi reported a net loss of approximately RMB1.9 million for the year ended 31 December 2009, which was insignificant as compared to the net profit achieved by the Group of over RMB87.1 million in 2009. Accordingly, we are of the view that the Acquisition will not have a material impact on the Group's earnings upon Completion.

(ii) *Working capital*

The Consideration of approximately US\$9.9 million (equivalent to approximately RMB67.8 million) will be financed by the Group's internal resources. According to the 2009 Annual Report, the Group had bank deposits, bank balances and cash of approximately RMB1,257.0 million and net working capital of approximately RMB1,272.3 million. Having considered (i) the amount of the Consideration and commitment made in relation to the Property; (ii) the capital expenditure required for the current development plan of the Property as discussed with the management of the Company; (iii) the positive operating cash inflows recorded by the Group in recent years; and (iv) the sufficient cash and bank balances as mentioned in (i) above, we are of the view that the settlement of the Consideration in cash will not have a material adverse impact on the working capital position of the Group.

(iii) *Net asset value*

Upon Completion, the assets and liabilities of Fujian TianDi will be consolidated into that of the Group. Given that the Consideration will be financed entirely by cash, it is expected that there will not be any material impact on the net asset value of the Group.

### RECOMMENDATION

Based on the above principal factors and reasons, we are of the opinion that the terms of the Shares Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Shares Transfer Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favor of the ordinary resolutions to be proposed at the EGM in relation to the Acquisition and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of  
**SOMERLEY LIMITED**  
**Jenny Leung**  
*Director*



*The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 March 2010 of the Properties held by the Target Group.*



**Asset Appraisal Limited**  
**資產評值顧問有限公司**

Rm 802 8/F On Hong Commercial Building  
No. 145 Hennessy Road Wanchai HK  
香港灣仔軒尼詩道145號  
安康商業大廈8樓802室  
Tel: (852) 2529 9448  
Fax: (852) 3521 9591

19 May 2010

**The Board of Directors**

**NetDragon Websoft Inc.**

Unit 2209, 22nd Floor  
West Tower, Shun Tak Centre  
200 Connaught Road Central  
Hong Kong

Dear Sirs,

**Re: Valuation of various properties in the People's Republic of China (the "PRC")**

In accordance with the instructions from **NetDragon Websoft Inc.** (the "**Company**") to value the property interests (the "**Properties**") of Fujian Tiandi Animation Technology Company Limited (福建天棣動漫科技有限公司, hereinafter together referred to as the "**Target Group**") in the PRC, we confirm that we have carried out inspections of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 31 March 2010 (the "**date of valuation**").

**BASIS OF VALUATION**

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Our valuation has been arrived at on the basis that all compensations for vacating and clearing the subject land parcels of the property are inclusive in the land premium that have been settled by the Target Group to the PRC Government. Also, all infrastructure works including road and utility connection and site leveling for the areas surrounding the land parcels of the Properties shall be completed by the PRC Government within a reasonable time period without undue delay.

**TITLESHIP**

We have been provided with copies of legal documents regarding the Properties. However, we have not examined the original documents to verify ownership of the Properties and the existence of any encumbrances that would affect its ownership.

We have also relied upon the legal opinions provided by the PRC legal adviser, namely Jingtian&Gongcheng (the “**PRC Legal Opinions**”), to the Company on the relevant laws and regulations in the PRC, on the nature of the Target Group’s interests in the Properties. Its material content has been summarized in the valuation certificate attached herewith.

**VALUATION METHODOLOGY**

We have valued the Properties by the direct comparison approach where comparison based on prices information of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

**ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the Properties on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the Properties.

As the Properties are held by the owner by means of long term Land Use Rights granted by the PRC Government, we have assumed that the owners have free and uninterrupted rights to use the Properties for the whole of the unexpired term of the land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

**LIMITING CONDITIONS**

No allowance has been made in our report for any charges, mortgages, resettlement compensation, land premium, construction costs or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, tenancy and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services for the development site of the Properties. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

### **Remarks**

In valuing the Properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1st January 2005.

All monetary sums stated in this report are in Renminbi (RMB).

Our valuation certificate is attached herewith.

Yours faithfully,  
for and on behalf of  
**Asset Appraisal Limited**  
**Tse Wai Leung**  
*MFin MRICS MHKIS RPS(GP)*  
*Director*

*TSE Wai Leung a member of the Royal Institute of Chartered Surveyors, Hong Kong Institute of Surveyors and a Registered Professional Surveyor in General Practice. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong and in the PRC.*

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2010 RMB														
Buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC.	<p>The Properties comprise two parcels of land with a total site area of approximately 164,517 square metres.</p> <p>The Properties also comprise a water coastal area in the Jinsha Bay lying at the eastern coast of Dahe Village. The water coastal area covers an area of approximately 129,196 square metres.</p>	As at the date of valuation, the Properties were vacant.	58,000,000 (see note 10 below)														
Lot Nos. (20)-1-1 and (20)-1-2	<p>As at the date of valuation, Lot No. (20)-1-1 of the Properties with an area of 81,349 square metres has been fully formed and serviced and a 2-storey industrial/office building, a 2-storey dormitory building, a canteen building, a dry cleaning station and a power substation have been built thereon.</p> <p>The total gross floor area of the aforesaid buildings is approximately 14,853.26 square metres which is broken down as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Industrial/office building</td> <td style="text-align: right;">10,408.48 sq.m.</td> </tr> <tr> <td>Dormitory Building</td> <td style="text-align: right;">2,989.58 sq.m.</td> </tr> <tr> <td>Canteen Building</td> <td style="text-align: right;">784.78 sq.m.</td> </tr> <tr> <td>Dry Cleaning Station</td> <td style="text-align: right;">305.02 sq.m.</td> </tr> <tr> <td>Power Substation</td> <td style="text-align: right;"><u>365.40 sq.m.</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">14,853.26 sq.m.</td> </tr> </tbody> </table> <p>The construction work of the subject buildings were completed in 2009.</p> <p>Lot No. (20)-1-2 of the Properties with an area of 83,168 square metres remained raw land covered with vegetation.</p> <p>The land use rights of the two parcels of land with a total site area of approximately 164,517 square metres have been granted for a term of 50 years expiring on 7 February 2059 for industrial (recreational equipment and entertaining product manufacturing (遊藝器材及娛樂用品製造) uses.</p> <p>The sea use rights of the water coastal area of the Properties have been granted for a term expiring on 9 August 2034 for tourist and entertainment and marine amusement park uses at an annual sea use rights fee of RMB104,649.</p>		Gross Floor Area (sq.m.)	Industrial/office building	10,408.48 sq.m.	Dormitory Building	2,989.58 sq.m.	Canteen Building	784.78 sq.m.	Dry Cleaning Station	305.02 sq.m.	Power Substation	<u>365.40 sq.m.</u>	Total	14,853.26 sq.m.		
	Gross Floor Area (sq.m.)																
Industrial/office building	10,408.48 sq.m.																
Dormitory Building	2,989.58 sq.m.																
Canteen Building	784.78 sq.m.																
Dry Cleaning Station	305.02 sq.m.																
Power Substation	<u>365.40 sq.m.</u>																
Total	14,853.26 sq.m.																

*Notes:*

1. As revealed by two Land Use Rights Certificates (ref. nos. Min Hang Guo Yong (2009) Nos. 00122 and 00123 (閩航國用(2009)第00122及00123號) both dated 13 April 2009, the land use rights of the Properties are held by Fujian Tiandi Animation Technology Company Limited (福建天棣動漫科技有限公司, referred to the “Target Group”) for a term of 50 years expiring on 7 February 2059 for industrial (recreational equipment and entertaining product manufacturing) (遊藝器材及娛樂用品製造) uses.
2. As revealed by the Building Ownership Certificate (Ref No. H Zhi No. 10000686), some of the subject buildings, which included industrial/office building, dormitory building, canteen building and dry clean building, with a total gross floor area of 14,487.86 square metres are held by the Target Group. As confirmed by the Target Group, the Building Ownership Certificate of Power Substation is currently being processed.
3. As revealed by Sea Use Rights Certificate (海域使用權證書) (ref. no. Guo Hai Zheng No. 093525001 (國海証093525001號)) issued by Changle City Ocean and Fishery Bureau (長樂市海洋與漁業局) dated 10 August 2009, the sea use rights over the water coastal area of the property with an area of approximately 129,196 square metres are held by the Target Group for a term expiring on 9 August 2034 for tourist and entertainment (旅遊娛樂用海) and marine amusement park (遊樂場用海) uses.
4. Pursuant to the Grant Contract of State-owned Land Use Rights (Ref: 35018220081015G016) dated 15 October 2008, the Target Group were granted the land use rights of Lot Nos. (20)-1-1 and (20)-1-2 of the Properties by the Changle City State-owned Land Resources Bureau (中華人民共和國福建省長樂市國土資源局) for industrial (recreation equipment and entertaining product manufacturing) purposes. As confirmed by the Company, the total costs incurred by the Target Group for acquiring the land use rights of the aforesaid two land parcels of the Properties were RMB28,468,540.80.
5. Pursuant to the Sea Use Right Approval Notice (海域使用權批准通知書) dated 13 August 2009, the Target Group were granted the sea use rights of the water coastal area of the Properties by the Changle City Ocean and Fishery Bureau (長樂市海洋與漁業局) for tourist and entertainment (旅遊娛樂用海) and marine amusement park (遊樂場用海) uses at an annual sea use rights fee of RMB104,649.
6. A Planning Permit of Construction Work (建設工程規劃許可證) (Ref: Jian Zi Di No. 350182200900006 (建字第350182200900006號) in relation to the Properties was issued in the name of the Target Group by the Changle City Urban and Rural Planning Bureau (長樂市城鄉規劃局) on 23 February 2009. As mentioned in the permit, the land parcels of the Properties are subject to the following planning conditions:

Project Name	:	Factory and ancillary facilities
Developable Site Area	:	164,517.1 square metres
Plot Ratio	:	1
Site Coverage	:	34.4%
Greenery Rate	:	20.0%
7. As revealed from the Construction Works Commencement Permits (建築工程施工許可證) (Ref. Nos. 3501262009031801) in relation to the property issued in the name of the Target Group by the Construction Bureau of Changle (長樂市建設局) on 18 March 2009, the construction of the subject buildings with a total gross floor area of 14,868.40 square metres has been approved.
8. The completion of construction works of the subject buildings has been certified via the Fujian Province Building Construction Work Completion Inspection and Acceptance Report (福建省房屋建築工程竣工驗收報告) issued by the Construction Office of Fujian Province (福建省建設廳) on 11 September 2009.

9. PRC Legal Opinions of the PRC Legal Adviser on the Properties is summarized as follows:
- (i) As revealed from a Sea Use Right Approval Notice (海域使用權批准通知書) issued by the Changle City Ocean and Fishery Bureau on 13 August 2009, the sea area use rights of the water coastal area of the Properties with an area of 12.9196 hectares (129,196 square metres) have been granted to the Target Group for a term expiring on 9 August 2034 at an annual sea use right fee of RMB104,649. As mentioned in the Sea Use Rights Certificate dated 10 August 2009, the permitted classes of sea usage of the water coastal area of the Properties are First Class (Tourism and Entertainment) (一級類(旅遊娛樂用海)) and Second Class (Marine Amusement Park) (二級類(遊樂場用海)). The Target Group's sea use rights are valid and are permitted to be transferred, leased and mortgaged.
  - (ii) Pursuant to the Grant Contract of State-owned Land Use Rights (Ref: 35018220081015G016) dated 29 July 2003, the Target Group were granted the land use rights JT1 of the Properties with an site area of 164,517 square metres by the Changle City State-owned Land Resources Bureau for a term of 50 years for industrial use at a consideration of RMB27,639,360. The land premium has fully settled.
  - (iii) The Target Group holds the Land Use Rights Certificates (ref. nos. Min Hang Guo Yong (2009) Nos. 00122 and 00123 (閩航國用(2009)第00122及00123號) both dated 13 April 2009 of Lot Nos. (20)-1-1 and (20)-1-2 of the property with a total site area of 164,517 square metres for a term of 50 years expiring on 7 February 2059 for industrial uses.
  - (iv) As revealed by the Building Ownership Certificate (Ref No. H Zhi No. 10000686), some of the subject buildings, which included industrial/office building, dormitory building, canteen building and dry clean building, with a total gross floor area of 14,487.86 square metres are held by the Target Group.
  - (v) According to the written confirmation of the Target Group, the Building Ownership Certificate of power substation is currently being processed.
  - (vi) According to the written confirmation of the Target Group, the PRC Government shall be responsible for undertaking infrastructure works (including road and utility connection and site leveling) for the areas surrounding the land parcels of the Properties.
  - (vii) According to the Environmental Impact Opinion on the Utilization of the Water Coastal Area of Jinsha Bay (關於海西(長樂)動漫創意項目金沙灣海域用海工程環境影響報告表的核准意見) dated 15 July 2009, no building and structure except such simple structures as lavatories and shower facilities is allowed over the water coastal area of the Properties.
  - (viii) The land use rights, building ownership rights and sea use rights of the Properties are not subject to mortgage and any third parties' rights.
10. Our valuation has been arrived at on the basis that all compensations for vacating and clearing the land parcels of the Properties are inclusive in the land premium that have been settled by the Target Group to the PRC Government. Also, all infrastructure works including road and utility connection and site leveling for the areas surrounding the land parcels of the Properties shall be completed by the PRC Government within a reasonable time period without undue delay.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

## 2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), to be notified to the Company and the Stock Exchange are as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Through controlled corporations	273,512,220 (L)	51.74%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Dejian (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Liu Luyuan (Note 2)	The Company	Through controlled corporations	273,312,220 (L)	51.70%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Luyuan (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%

Name of Director	Name of company	Capacity and nature of interests	Number of shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Zheng Hui (Note 2)	The Company	Through controlled corporations	271,912,220 (L)	51.44%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Zheng Hui (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Chen Hongzhan (Note 4)	The Company	Through a controlled corporation	14,500,000 (L)	2.74%
Chao Guowei, Charles	The Company	Beneficial owner	98,510 (L)	0.01%
Lee Kwan Hung	The Company	Beneficial owner	98,510 (L)	0.01%
Liu Sai Keung, Thomas	The Company	Beneficial owner	98,510 (L)	0.01%

## Notes:

- (1) The letter “L” denotes the shareholder’s long position in the share capital of the relevant member of the Group.
- (2) Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 35.01% of the issued share capital of the Company.

Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 4.98% of the issued share capital of the Company.

Zheng Hui is interested in 4.60% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 35.01% and 5.21%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.23% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.44% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc. excluding 1,600,000 and 1,400,000 shares of the Company granted to Liu Dejian and Liu Luyuan on 7 December 2009 respectively.

- (3) Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon



(Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed and direct shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

- (4) Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.44% of the issued share capital of the Company. Chen Hongzhan had been granted 1,600,000 shares of the Company on 7 December 2009, which in turn is interested in 0.3% of the Company. Chen Hongzhan is deemed to be interested in 2.74% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited.

Save as disclosed above, to the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest and short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares 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 were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group are as follows:

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	185,078,100 (L)	35.01%
Fitter Property Inc.	The Company	Beneficial owner	27,536,440 (L)	5.21%

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	32,952,920 (L)	6.23%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	32,952,920 (L)	6.23%
IDG Group (Note 3)	The Company	Beneficial owner and through controlled corporations	78,333,320 (L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000 (L)	99.00%

## Notes:

1. The letter “L” denotes the shareholder’s long position 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 BVI with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.23% of the issued share capital of the Company through its shareholding in Eagle World International Inc.
3. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.06%, 9.84%, 2.01% and 0.92%, respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships are as follows:
  - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.
  - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Patrick J. McGovern.
  - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by James W. Breyer.

Save as disclosed above as at the Latest Practicable Date, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the Shares 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 were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of Share.

#### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### 5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or any of their respective associates had a controlling interest in a business which causes or may cause any significant direct or indirect competition with the business of the Group or any significant conflicts with the interests of the Group.

Save as disclosed in "Report of the Directors — Connected transactions" in the annual report of the Group dated 15 April 2010 and the transactions contemplated under the Acquisition, (i) there are no contracts or arrangements subsisting as at the Latest Practicable Date in which a Director is materially interested or which is significant in relation to the business of the Group; and (ii) no Director has any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to any member of the Group.

#### 6. QUALIFICATIONS

The following are the qualifications of the experts who have given an opinion or advice on the information contained in this circular:

<b>Name</b>	<b>Qualification</b>
Asset Appraisal Limited	a professional valuer
Somerley	a corporation licensed by the SFC to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Jingtian&Gongcheng	a qualified PRC legal adviser

As at the Latest practicable Date, each of Asset Appraisal Limited, Somerley and Jingtian&Gongcheng had no interest in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and each of Asset Appraisal Limited, Somerley and

Jingtian&Gongcheng had no interest, either directly or indirectly, in any assets which have been, since 31 December 2009, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of Asset Appraisal Limited, Somerley and Jingtian&Gongcheng has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion of their respective letter/report and references to their names in the form and context in which they appear. Each of the valuation report from Asset Appraisal Limited, the letter from Somerley and the legal opinions from Jingtian&Gongcheng is given as at the date of this circular for incorporation herein.

#### **7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Group were made up.

#### **8. GENERAL**

- (a) The registered address of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Unit 2209, 22nd Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.
- (c) The share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Tam Hon Shan, Celia, a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.
- (e) In the event of any inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese texts.

#### **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the office of the Company at Unit 2209, 22nd Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong from the date of this circular up to and including 7 June 2010:

- (a) the Shares Transfer Agreement;
- (b) the letter from the Board, the text of which is set forth on pages 5 to 11 of this circular

- (c) the letter from the Independent Board Committee, the text of which is set forth on page 12 of this circular;
- (d) the letter from Somerley, the Independent Financial Adviser, the text of which is set forth on pages 13 to 22 of this circular;
- (e) the valuation report from the Independent Valuer, the text of which is set forth on pages 23 to 28 of this circular;
- (f) the PRC legal opinion from the PRC Legal Adviser, Jingtian&Gongcheng;
- (g) all the written consents referred to in paragraph 6 headed “Qualifications” in this appendix;
- (h) the memorandum and articles of association of the Company;
- (i) this circular; and
- (j) any other contracts referred to in this circular.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### NetDragon Websoft Inc.

### 網龍網絡有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of NetDragon Websoft Inc. (the “Company”) will be held at Annapurna Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong, on Monday, 7 June 2010 at 2:00 p.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions of the Company:

#### ORDINARY RESOLUTIONS

**“THAT:**

1. the shares transfer agreement (the “Shares Transfer Agreement”) enter into between Main Honour Holdings Limited, an indirectly wholly-owned subsidiary of the Company and DJM Holding Ltd., a connected person of the Company, a copy of which has been produced to the meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) and the transactions contemplated therein be and are hereby confirmed, approved, and ratified; and
2. any one director of the Company or the company secretary of the Company be and is hereby authorised for and on behalf of the Company to execute and, if necessary, to sign and affix the common seal of the Company to any such documents, instruments and agreements and to do any such acts or things as may be deemed by him in his absolute discretion as necessary or desirable, incidental to, ancillary to or in connection with or otherwise to give effect to the matters contemplated in the Shares Transfer Agreement and the transactions contemplated thereunder.”

Capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 19 May 2010, unless the context requires otherwise.

By order of the Board  
**NetDragon Websoft Inc.**  
**Liu Dejian**  
*Chairman*

Hong Kong, 19 May 2010

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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**Notes:**

- (1) A member of the Company entitled to attend and vote at the extraordinary general meeting convened by the above notice is entitled to appoint another person as his proxy to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company but must attend the extraordinary general meeting to represent the member.
- (2) In order to be valid, the form of proxy must be deposited with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
- (3) In the case of joint holders of any shares in the Company, any one of such joint holders may vote at the extraordinary general meeting, either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.
- (4) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.
- (5) Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

*As at the date of this notice, the executive directors of the Company are Liu Dejian, Liu Luyuan, Zheng Hui and Chen Hongzhan; the non-executive director of the Company is Lin Dongliang; and the independent non-executive directors of the Company are Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.*