
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

(Stock code on Main Board: 777)

(Stock code on GEM: 8288)

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING ON
THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
PROPOSED LISTING OF THE ENTIRE ISSUED SHARE CAPITAL OF
THE COMPANY ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED
BY WAY OF INTRODUCTION,
PROPOSED REDUCTION OF THE MINIMUM NOTICE PERIOD
IN RESPECT OF THE PROPOSED WITHDRAWAL,
PROPOSED TERMINATION OF THE GEM SHARE OPTION SCHEME AND
PROPOSED ADOPTION OF THE PROPOSED SHARE OPTION SCHEME,
AND
PROPOSED GRANT OF NEW GENERAL MANDATES AND
PROPOSED REVOCATION OF EXISTING GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES**

A notice convening an extraordinary general meeting of the Company (the “EGM”) to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 12 June 2008 (Thursday) at 10:00 a.m. is set out on pages 31 to 35 of this circular. Whether or not you are able to attend the EGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the 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, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

This circular will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com seven days from the date of its posting and the website of the Company at www.nd.com.cn for at least seven days from the date of its posting.

27 May 2008

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

	<i>Page</i>
Expected timetable	1
Definitions	2
Responsibility statement	5
Letter from the Board	6
Appendix I — Summary of the principal terms of the Proposed Share Option Scheme	15
Appendix II — Explanatory statement	25
Notice of the EGM	31

EXPECTED TIMETABLE

The expected timetable for the Proposed Withdrawal and the Proposed Introduction is set out below:

2008

Despatch of the Listing Document, this circular, the EGM Notice
and related form of proxy to the Shareholders in relation
to the Proposed Withdrawal and the Proposed Introduction Tuesday, 27 May

Latest time for lodging form of
proxy for the EGM 10:00 a.m. on Tuesday, 10 June

EGM 10:00 a.m. on Thursday, 12 June

Announcement of results of the EGM
on the GEM website at www.hkgem.com Thursday, 12 June

Latest time of dealings in the Shares on GEM Close of business on Monday, 23 June

Withdrawal of listing of the Shares on GEM effective from 9:30 a.m. on Tuesday, 24 June

Dealings in the Shares on the Main Board commence on 9:30 a.m. on Tuesday, 24 June

Notes:

1. All times and dates refer to Hong Kong times and dates.
2. Shareholders will be informed by public announcement of any changes in the above expected timetable.

DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“associate(s)”	has the meaning ascribed to it under the Main Board Listing Rules and/or GEM Listing Rules (as the case may be)
“Board”	the board of Directors
“Business Day”	a day that is not a Saturday, Sunday or a public holiday in Hong Kong
“Buyback Mandate”	a general mandate proposed to be granted to the Directors to exercise the power of the Company to repurchase Shares up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the ordinary resolution no. 4 as set out in the EGM Notice
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Company”	NetDragon Websoft Inc., a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on GEM
“connected person(s)”	has the meaning given to it by the Main Board Listing Rules and/or GEM Listing Rules (as the case may be)
“Director(s)”	the director(s) of the Company
“Effective Date”	expected to be 24 June 2008, the date on which the Proposed Withdrawal and the Proposed Introduction become effective
“EGM”	the extraordinary general meeting of the Company to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 12 June 2008 at 10:00 a.m. or any adjournment thereof, to consider and approve, if thought fit, among other things, the Proposed Withdrawal, the Proposed Introduction, the Proposed Share Option Scheme, and the new general mandates
“EGM Notice”	the notice convening the EGM, which is set out on pages 31 to 35 of this circular
“Existing General Mandates”	the general mandates to issue Shares and repurchase Shares granted to the Directors pursuant to resolutions passed by the Shareholders at the annual general meeting of the Company held on 28 April 2008

DEFINITIONS

“First Shanghai Capital” or “Sponsor”	First Shanghai Capital Limited, a licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity, being the sponsor to the Company in respect of the Proposed Introduction
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended from time to time
“GEM Share Option Scheme”	the share option scheme adopted by the Company on 15 October 2007
“Group”	the Company and its subsidiaries (as defined in the Main Board Listing Rules and/or GEM Listing Rules (as the case may be))
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	22 May 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Committee”	the listing committee of the board of directors of the Stock Exchange
“Listing Document”	the listing document dated 27 May 2008 to be issued by the Company in connection with the Proposed Introduction
“Main Board”	the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Introduction”	the proposed listing of the Shares on the Main Board by way of introduction pursuant to the Main Board Listing Rules
“Proposed Share Option Scheme”	the proposed share option scheme to be conditionally adopted at the EGM, a summary of the principal terms of which is set out in Appendix I to this circular

DEFINITIONS

“Proposed Withdrawal”	the proposed voluntary withdrawal of the listing of the Shares on GEM
“Repurchase Resolution”	the ordinary resolution relating to the Buyback Mandate as set out in resolution no. 4 in the EGM Notice
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial Shareholder(s)”	has the meaning given to it by the Main Board Listing Rules and/or GEM Listing Rules (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

- (i) the information contained in this circular is accurate and complete in all material aspects and not misleading;
- (ii) there are no other matters the omission of which would make any statement herein misleading; and
- (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

LETTER FROM THE BOARD

NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

(Stock code on Main Board: 777)

(Stock code on GEM: 8288)

Executive Directors:

Liu Dejian (*Chairman*)
Liu Luyuan
Zheng Hui
Chen Hongzhan

Non-executive Directors:

Lin Dongliang

Independent non-executive Directors:

Chao Guowei, Charles
Lee Kwan Hung
Liu Sai Keung, Thomas

Registered office:

Scotia Centre
4th Floor, P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

*Principal place of business
in Hong Kong:*

Unit 06, 3rd Floor
Beautiful Group Tower
77 Connaught Road Central
Hong Kong

27 May 2008

To the Shareholders

Dear Sir or Madam,

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING ON
THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
PROPOSED LISTING OF THE ENTIRE ISSUED SHARE CAPITAL OF
THE COMPANY ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED
BY WAY OF INTRODUCTION,
PROPOSED REDUCTION OF THE MINIMUM NOTICE PERIOD
IN RESPECT OF THE PROPOSED WITHDRAWAL,
PROPOSED TERMINATION OF THE GEM SHARE OPTION SCHEME AND
PROPOSED ADOPTION OF THE PROPOSED SHARE OPTION SCHEME,
AND
PROPOSED GRANT OF NEW GENERAL MANDATES AND
PROPOSED REVOCATION OF EXISTING GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES**

INTRODUCTION

On 20 March 2008, the Board announced that the Sponsor had on behalf of the Company submitted an advance booking form to the Stock Exchange for the Proposed Introduction and the

LETTER FROM THE BOARD

Company had informed GEM of its intention to implement the Proposed Withdrawal, conditional upon the conditions set out in the paragraph headed “Conditions of the Proposed Withdrawal and the Proposed Introduction” below.

In connection with the Proposed Introduction, the Directors propose to the Shareholders the termination of the GEM Share Option Scheme, the adoption of the Proposed Share Option Scheme and the grant of new general mandates to issue and repurchase Shares in substitution for the Existing General Mandates for complying with the requirements under the Main Board Listing Rules.

The purpose of this circular is to give you information on, inter alia, (i) the Proposed Withdrawal and the Proposed Introduction; (ii) the proposed reduction of the minimum notice period for the Proposed Withdrawal; (iii) the proposed adoption of the Proposed Share Option Scheme and termination of the GEM Share Option Scheme; (iv) the proposed grant of new general mandates to issue and repurchase Shares; and (v) to seek Shareholders’ approval of the resolutions in respect of the aforesaid at the EGM as described in the paragraph headed “The EGM” below. The EGM Notice is set out on pages 31 to 35 of this circular.

THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

On 20 March 2008, the Sponsor had on behalf of the Company submitted an advance booking form to the Stock Exchange for the listing of, and permission to deal in, on the Main Board (a) the Shares in issue; and (b) any Shares which may be issued upon (1) the exercise of any outstanding options (if any) which may be granted under the GEM Share Option Scheme; and (2) the exercise of any options which may be granted under the Proposed Share Option Scheme.

The Stock Exchange informed the Sponsor on 23 May 2008 that the Listing Committee had granted an approval in principle of the listing of, and permission to deal in, the Shares as mentioned above on the Main Board. Immediately following the Proposed Withdrawal becoming effective, the listing of the Shares on GEM will be withdrawn and the Shares will be listed on the Main Board.

REASONS FOR THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

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

The Directors believe that the listing of the Shares on the Main Board will help to enhance the profile of the Group and increase the trading liquidity of the Shares and recognitions by attracting larger institutional and retail investors. The Directors consider that the listing of the Shares on the Main Board will be beneficial to the future growth, financial flexibility and business development of the Company. No change in the nature of business of the Group is contemplated by the Directors following the Proposed Introduction.

The Proposed Introduction will not involve issue of any new Shares by the Company.

LETTER FROM THE BOARD

WAIVER FROM STRICT COMPLIANCE WITH THE MINIMUM NOTICE PERIOD IN RESPECT OF THE PROPOSED WITHDRAWAL

Pursuant to Rule 9.19 of the GEM Listing Rules, an issuer that has an alternative listing on another regulated, regularly operating, open stock exchange or securities market recognised for this purpose by the Stock Exchange, may not voluntarily withdraw its listing on GEM unless:

- (i) the prior approval of shareholders has been obtained by way of an ordinary resolution passed at a duly convened meeting of the shareholders of the issuer;
- (ii) the prior approval of holders of any other class of listed securities, if applicable, has been obtained; and
- (iii) the issuer has given its shareholders and holders of any other class of listed securities, if applicable, at least 3 months notice of the proposed withdrawal of the listing. This minimum notice period must run from the date on which the shareholders approve the voluntary withdrawal of listing and such notice must include details of how to transfer securities to and trade those securities on the alternative market.

In connection with the Proposed Withdrawal, the Company has applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with the minimum three months' notice required under Rule 9.19(3) of the GEM Listing Rules, subject to the fulfillment of the following conditions:

- (i) the notice period for the Proposed Withdrawal shall be a minimum period of five clear Business Days after obtaining the approval of the Shareholders for the Proposed Withdrawal at the EGM;
- (ii) the prior approval of the Shareholders for the reduction of the minimum notice period for the Proposed Withdrawal to a period of five clear Business Days shall have been obtained at the EGM;
- (iii) in respect of the Shares, there is no change in the board lot size, the share certificates, the share registrars and the trading currency in connection with the Proposed Introduction; and
- (iv) there is no other fact that leads GEM to believe that the reduced notice period is not feasible.

Accordingly, the EGM will be convened to seek the approval of the Shareholders for, amongst other things, the Proposed Withdrawal and the proposed reduction in the notice period for the Proposed Withdrawal. After Shareholders' approval having been obtained, a notice of the Proposed Withdrawal will be published not less than five clear Business Days prior to the Effective Date.

LETTER FROM THE BOARD

The Directors consider that it is in the best interests of the Company and the Shareholders as a whole that the notice period for the Proposed Withdrawal be reduced so that the Proposed Withdrawal and the Proposed Introduction can be carried out as soon as practicable after obtaining the relevant approvals from the Shareholders at the EGM to avoid any market uncertainties.

CONDITIONS OF THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

The implementation of the Proposed Withdrawal and the Proposed Introduction are conditional upon, amongst other things:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, (a) the Shares in issue; and (b) any Shares which may be allotted and issued upon (1) the exercise of any options which may be granted under the GEM Share Option Scheme; and (2) the exercise of any options which may be granted under the Proposed Share Option Scheme;
- (ii) the passing of an ordinary resolution by the Shareholders at the EGM to approve, amongst other things, the Proposed Withdrawal and the proposed reduction of the notice period for the Proposed Withdrawal;
- (iii) the granting of a waiver from strict compliance with the minimum three months' notice required under Rule 9.19(3) of the GEM Listing Rules by the Stock Exchange which is subject to the fulfillment of all the required conditions;
- (iv) the publication of a notice of the Proposed Withdrawal after obtaining the approval of Shareholders referred to in condition (ii) above on a date that is not less than five clear Business Days prior to the Effective Date; and
- (v) the obtaining of all other relevant consents which are required in connection with the implementation of the Proposed Withdrawal and the Proposed Introduction and fulfillment of all conditions which may be attached to such consents, if any.

EFFECTS OF THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

Subject to the fulfillment of the conditions set out in the preceding paragraph, it is expected that dealings in the Shares on GEM will cease at close of business on the Business Day immediately prior to the Effective Date and dealings in the Shares on the Main Board will commence at 9:30 a.m. on the Effective Date. The Company will publish an announcement after the EGM on the results of the EGM and other information in relation to the Proposed Withdrawal and the trading arrangements of the Shares with respect to the Proposed Withdrawal and the Proposed Introduction.

The Proposed Withdrawal and the Proposed Introduction will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and will not involve any transfer or exchange of the existing share certificates. No change will be made to the board lot size, trading currency of the Shares and the share registrars of the Shares in connection with

LETTER FROM THE BOARD

the Proposed Withdrawal and the Proposed Introduction. **Shares will be traded under the new stock code 777 in board lots of 500 Shares each following the Proposed Introduction. If and when the Shares are listed on the Main Board, Shareholders may be required to sign a new client agreement with their stockbrokers.**

Please also note that the continuing obligations of listed issuers under the Main Board Listing Rules and the GEM Listing Rules are not the same.

ADOPTION OF THE PROPOSED SHARE OPTION SCHEME AND TERMINATION OF THE GEM SHARE OPTION SCHEME

In connection with the Proposed Introduction, the Directors propose the adoption of the Proposed Share Option Scheme, the provisions of which comply with the requirements of Chapter 17 of the Main Board Listing Rules in substitution of the existing GEM Share Option Scheme. A summary of the principal terms of the Proposed Share Option Scheme is set out in Appendix I to this circular.

The Proposed Share Option Scheme will enable the Directors to grant options to certain selected participants as incentives or rewards for their contribution to the Group.

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, on Main Board any Shares which may be issuable upon the exercise of any options which may be granted under the Proposed Share Option Scheme.

The adoption of the Proposed Share Option Scheme is conditional upon:

- (i) the passing of ordinary resolution by the Shareholders at the EGM approving the termination of the GEM Share Option Scheme;
- (ii) the passing of ordinary resolution by the Shareholders at the EGM approving the adoption of the Proposed Share Option Scheme and authorising the Directors to grant options thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted pursuant to the Proposed Share Option Scheme;
- (iii) the Listing Committee granting approval for the listing of, and permission to deal in, on the Main Board any Shares which may be issued pursuant to the exercise of any options which may be granted pursuant to the Proposed Share Option Scheme; and
- (iv) commencement of dealings in the Shares on the Main Board.

It is proposed that the GEM Share Option Scheme will be terminated upon the adoption of the Proposed Share Option Scheme after all the conditions of the Proposed Share Option Scheme have been fulfilled.

LETTER FROM THE BOARD

No options had been granted pursuant to the GEM Share Option Scheme as at the Latest Practicable Date. Upon termination of the GEM Share Option Scheme, no further options may be offered or granted thereunder. Apart from the GEM Share Option Scheme, there was no other subsisting share option scheme of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, the issued share capital of the Company comprised 540,232,860 Shares. Assuming that there is no change in the issued share capital of the Company between the period from the Latest Practicable Date and the date of adoption of the Proposed Share Option Scheme, the number of Shares issuable pursuant to the Proposed Share Option Scheme and any other share option schemes of the Company on the date of adoption of the Proposed Share Option Scheme will be 54,023,286 Shares, representing approximately 10% of the total number of Shares in issue as at the date of approval of the Proposed Share Option Scheme.

The Directors consider that it is not appropriate to state the value of all the options that can be granted under the Proposed Share Option Scheme as if they had been granted at the Latest Practicable Date prior to the approval of the Proposed Share Option Scheme given that the variables which are critical for the calculation of the value of such options cannot be determined. These variables include the subscription price payable for Shares upon the exercise of subscription rights attaching to the options, whether or not options will be granted under the Proposed Share Option Scheme and the timing of the granting of such options, the period during which the subscription rights may be exercised, the discretion of the Board to impose any performance target that has to be achieved before the subscription rights attaching to the options can be exercised and any other conditions that the Board may impose with respect to the options and whether or not such options, if granted, will be exercised. The subscription price payable for the Shares depends on the price of the Shares as quoted on the Stock Exchange, which in turn depends on when the Board is to grant options under the Proposed Share Option Scheme. With a scheme life of ten years, the Board is of the view that it is too premature to state whether or not options will be granted under the Proposed Share Option Scheme and, if so, the number of options that may be granted. It is also difficult to ascertain with accuracy the subscription price of the Shares given the volatility to which the price of the Shares may be subject during the ten-year life span of the Proposed Share Option Scheme. In the premises, the Directors are of the view that the value of the options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the options will not be meaningful and may be misleading to Shareholders in the circumstances.

GENERAL MANDATES

In connection with the Proposed Introduction, the Directors proposed to seek the approval of the Shareholders to revoke the Existing General Mandates and to grant new general mandates to the Directors (i) to allot, issue and deal with Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the relevant resolution at the EGM; and (ii) to repurchase Shares with an aggregate nominal amount up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the relevant resolution at the EGM (ie. the Buyback Mandate). Assuming that there is no change in the issued share capital of the Company between the period from the Latest Practicable Date and the date of passing the relevant resolution at the EGM, the number of Shares

LETTER FROM THE BOARD

issuable pursuant to the new general mandate will be 108,046,572 Shares and the number of Shares can be repurchased by the Company will be 54,023,286. Both new general mandates will expire on the earliest of: (a) the conclusion of the next annual general meeting of the Company (“AGM”); (b) the expiration of the period within which the next AGM is required by the articles of association of the Company or any applicable laws to be held; or (c) the revocation or variation of the relevant resolution by an ordinary resolution of the Shareholders in general meeting. Another ordinary resolution will also be proposed at the EGM to add to the new general mandate to be granted to the Directors to allot, issue and deal with Shares by an amount representing the aggregate nominal amount of the share capital of the Company (up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the relevant resolution) repurchased under the Buyback Mandate (i.e. 54,023,286 Shares assuming that there is no change in the issued share capital of the Company between the period from the Latest Practicable Date and the date of passing the relevant resolution at the EGM). The relevant resolution is set out as resolution no. 4 in the EGM Notice.

An explanatory statement containing all relevant information relating to the Buyback Mandate is set out in Appendix II to this circular. The information in the explanatory statement is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolution to grant to the Directors the Buyback Mandate at the EGM.

The Directors confirm that they have not exercised the Existing General Mandates to issue Shares or repurchase Shares after granting thereof to the Directors on 28 April 2008 and that they have no present intention to exercise such general mandates prior to the proposed listing of the Shares on the Main Board.

THE EGM

The EGM Notice is set out on pages 31 to 35 of this circular. Ordinary resolutions will be proposed to the Shareholders at the EGM to consider and, if thought fit, approve, amongst other things, the following:

- (i) the Proposed Withdrawal;
- (ii) the proposed reduction in the notice period for the Proposed Withdrawal;
- (iii) the proposed termination of the GEM Share Option Scheme and the proposed adoption of the Proposed Share Option Scheme; and
- (iv) the revocation of the Existing General Mandates and the granting of new general mandates to issue and repurchase Shares.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar in Hong Kong, Tricor Investor Services

LETTER FROM THE BOARD

Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

There will not be closure of register of members of the Company in respect of the EGM. Shareholders whose names appear on the register of members of the Company as at 4:00 p.m. on the Business Day immediately before the date of the EGM are entitled to attend and vote at the EGM.

PROCEDURES FOR DEMANDING A POLL

Pursuant to the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the GEM Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:-

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or
- (e) if required by the GEM Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five percent or more of the total voting rights at such meeting.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the Listing Document including the rules of the Proposed Share Option Scheme will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 06, 3rd Floor, Beautiful Group Tower, 77 Connaught Road Central, Hong Kong during normal business hours up to and including 12 June 2008, the date of the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the Proposed Withdrawal, the proposed reduction in the notice period for the Proposed Withdrawal, the proposed termination of the GEM Share Option Scheme and the proposed adoption of the Proposed Share Option Scheme, and the proposed grant of new general mandates are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of all the ordinary resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the appendices to this circular.

WARNING

Shareholders and potential investors should be aware that the implementation of the Proposed Withdrawal and the Proposed Introduction are subject to the conditions set out in the section headed “Conditions of the Proposed Withdrawal and the Proposed Introduction”, and thus the Proposed Withdrawal and the Proposed Introduction may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

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

The following is a summary of the principal terms of the rules of the Proposed Share Option Scheme to be adopted by the Shareholders at the EGM to replace the GEM Share Option Scheme.

1. PURPOSE

The purpose of the Proposed Share Option Scheme is to enable the Company to grant options to the Participants (as defined in paragraph 2 below) as incentives and/or rewards for their contribution to the Group, and any of its associated companies, the Group's holding company and the subsidiaries and the associated companies to the Group's holding company (the "Members of the Group").

2. WHO MAY JOIN

The Board may, at its discretion, offer participants (being employees (whether full time or part time), executives and officers of the Members of the Group (including executive and non-executive directors of the Members of the Group) and business consultants, agents and legal and financial advisers to the Members of the Group who the Board considers, in its sole discretion, will contribute or have contributed to the Members of the Group) ("Participants") options to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 5 below. Upon acceptance of the option, the grantee thereof shall pay HK\$1.00 to the Company by way of consideration for the grant.

3. MAXIMUM NUMBER OF SHARES

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% of the total issued Shares (i.e. 54,023,286) Shares, assuming that no Shares will be issued or repurchased prior to the date of the EGM as at the date of approval and adoption of the Proposed Share Option Scheme by the Shareholders (which is expected to be 12 June 2008, being the date of the EGM). Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit.

Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Main Board Listing Rules from time to time, the Board may:

- (i) refresh this limit at any time up to 10% of the Shares in issue as at the date of the approval of the limit as refreshed by the Shareholders in general meeting (options previously granted under any share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed); and/or

- (ii) grant options beyond the 10% limit to Participants specifically identified by the Board whereupon the Company shall send a circular to the Shareholders containing, amongst others, a generic description of the specified Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Participants with an explanation as to how the options serve such purpose and such other information as required under the Main Board Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded.

4. MAXIMUM NUMBER OF OPTIONS TO ANY ONE INDIVIDUAL

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Proposed Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each Participant in any 12-month period up to the date of grant shall not exceed one per cent of the Shares in issue as at the date of grant. Any further grant of options in excess of this one per cent limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such Participant and his associates (as defined in the Main Board Listing Rules) abstaining from voting and other requirements prescribed under the Main Board Listing Rules from time to time.

5. SUBSCRIPTION PRICE OF SHARES

The subscription price for a Share in respect of any particular option granted under the Proposed Share Option Scheme (subject to adjustments referred to in paragraph 18) shall be such price as the Board in its absolute discretion shall determine, save that such price must not be less than the highest of (a) the closing price of the Shares as stated in the Main Board's daily quotations sheet on the date of offer to grant option, (b) the average of the closing prices of the Shares as stated in the Main Board's daily quotations sheet for the five (5) business days immediately preceding the date of offer to grant option; and (c) the nominal value of a Share.

6. GRANTING OPTIONS TO CONNECTED PERSONS

Any grant of options to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates (as defined in the Main Board Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the relevant Participant).

If the Board proposes to grant options to a substantial Shareholder or an independent non-executive Director of the Company or any of their respective associates which will result in the Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person under this Scheme and the other schemes in the 12-month period up to and including the date of the offer of such grant:

- (i) representing in aggregate over 0.1%, or such other percentage as may from time to time be specified in the Main Board Listing Rules, of the Shares in issue on the date of the offer; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares as stated in the daily quotation sheets of the Main Board on the Offer Date, or such other amount as may from time to time be specified in the Main Board Listing Rules,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Main Board Listing Rules) of the Company shall abstain from voting, in favour at the general meeting such other requirements prescribed under the Main Board Listing Rules from time to time.

7. RESTRICTIONS ON THE TIME OF GRANT OF OPTIONS

For so long as the Share are listed on the Main Board, an offer to grant option may not be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been announced pursuant to the requirements of the Main Board Listing Rules. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (a) the date of the Board meeting for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Main Board Listing Rules); and (b) the deadline for the Company to publish its interim or results for any year, half-year, quarterly or any other interim period (whether or not required under the Main Board Listing Rules) announcement under the listing agreement and ending on the date of actual publication of the results announcement.

8. RIGHTS ARE PERSONAL TO GRANTEE

An option is personal to the grantee and the grantee may not in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt to do so.

9. TIME OF EXERCISE OF OPTION

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The date of grant of any particular option is the date when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration is received by the Company, such date must be on or before the 28th day after the option is offered to the relevant grantee. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Proposed Share Option Scheme. Subject to earlier termination by the Company in general meeting, the Proposed Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Proposed Share Option Scheme by Shareholders by resolution at a general meeting.

10. PERFORMANCE TARGET

The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Proposed Share Option Scheme can be exercised.

11. RIGHTS ON CEASING TO BE AN PARTICIPANT AND DEATH

If the grantee of an option ceases to be an employee of the Members of the Group

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph 12 below, the option (to the extent not already exercised) will lapse on the date of cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with the Company or the relevant Members of the Group whether salary is paid in lieu of notice or not.

12. LAPSE OF OPTION ON MISCONDUCT, BANKRUPTCY OR DISMISSAL ETC.

If a grantee ceases to be an Participant by reason of the termination of his relationship with the Members of the Group on any one or more of the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee of the Members of the Group (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or the Members of the Group.

13. RIGHTS ON GENERAL OFFER

If a general offer by way of takeover is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the grantee shall be entitled to exercise the option in full (to the extent not already exercised even though the option period has not come into effect during the occurrence of the general offer) at any time within 21 days of the notice given by any such offeror to acquire the remaining Shares.

14. RIGHTS ON COMPROMISE OR ARRANGEMENT BETWEEN THE COMPANY AND ITS MEMBERS OR CREDITORS

If a general offer by way of scheme of arrangement is made to all the holders of Shares with the Proposed Share Option Scheme having been approved by the necessary number of holders of Shares at the requisite meetings, the grantee may thereafter (but before such time as shall be notified by the Company) exercise the option (to the extent not already exercised even though the option period has not come into effect during the occurrence of the general offer) to its full extent or to the extent specified in such notice.

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the grantee may by notice in writing to the Company (such notice to be received by the Company not later than 4 trading days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and registered the grantee as holder thereof.

15. RIGHTS ON WINDING-UP

In the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to the grantee and the grantee may by notice in writing to the Company (such notice to be received by the Company not later than 4 trading days prior to the proposed Shareholders' meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

16. LAPSE OF THE OPTIONS

An option will lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry date relevant to that option;
- (ii) the expiry of any of the periods referred to in paragraph 11;
- (iii) subject to the scheme of arrangement of the Company becoming effective, the expiry of the period referring to in paragraph 14;
- (iv) subject to the voluntary winding-up duly resolved, the expiry of the period referred to in paragraph 15;
- (v) the date of commencement of the winding-up of the Company;
- (vi) subject to the High Court of Hong Kong or Grand Court of the Cayman Islands not making an order prohibiting the offeror to acquire the remaining Shares in the offer, the expiry of the period referred to in paragraph 13;
- (vii) the date on which the grantee ceases to be a Participant by reason of the termination of his relationship with the Members of the Group on any one or more of the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee of the Members of the Group (if so determined by the board of the Members of the Group) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant Members of the Group. A resolution of the Board or the board of directors of the relevant Members of the Group to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in paragraph 12 above shall be conclusive; or
- (viii) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of the prohibitions specified in paragraph 12 above or the options are cancelled in accordance with paragraph 20 below.

17. RANKING OF SHARES

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject as aforesaid, the Shares to be allotted and issued upon the exercise of an option shall be subject to all the provisions of the constitutional documents of the Company and the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated as revised) of the Cayman Islands and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of the Company as attached to the fully-paid Shares in issue on the date of issue, in particular but without prejudice to the generality of the foregoing, in respect of voting, transfer and other rights, including those arising on liquidation of the Company and rights in respect of any dividend or other distribution paid or made on or after the relevant date of issue.

18. EFFECT OF ALTERATIONS TO CAPITAL

In the event of any normal anti-dilutive events including capitalisation issue, rights issue, open offer, consolidation, subdivision or reduction of the capital of the Company, such corresponding alterations (if any) shall be made in (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as circumstances requiring alteration or adjustment) in (a) the number of Shares subject to any outstanding options and/or (b) the exercise price as the auditors or the approved independent financial adviser shall at the request of the Company or any grantee, certify in writing, to be in their opinion fair and reasonable and satisfied the requirements under the Main Board Listing Rules, provided that any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Main Board dated 5 September 2005 to all issuers relating to share option schemes which can be found on the Main Board's website www.hkex.com.hk ("Supplemental Guidance") as that to which he or she was entitled to subscribe had he or she exercised all the options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. Any adjustment to be made will comply with the Main Board Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Main Board Listing Rules issued by the Main Board from time to time.

19. ALTERATION OF PROPOSED SHARE OPTION SCHEME

The terms and conditions of the Proposed Share Option Scheme and the regulations for the administration and operation of the Proposed Share Option Scheme (provided that the same are not inconsistent with the Proposed Share Option Scheme and the Main Board Listing Rules) may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Main Board Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Proposed Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Proposed Share Option Scheme),

must be made with the prior approval of the Shareholders in general meeting at which any person(s) to whom or for whose benefit the Shares may be issued under the Proposed Share Option Scheme and their respective associates shall abstain from voting PROVIDED THAT the amended terms of the Proposed Share Option Scheme or the options shall remain in compliance with Chapter 17 of the Main Board Listing Rules and no alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to such alteration except with:

- (i) the consent in writing of grantees holding in aggregate options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Shares which would fall to be issued upon the exercise of all options outstanding on that date; or
- (ii) the sanction of a special resolution.

Written notice of any alterations made in accordance with this paragraph 19 shall be given to all grantees.

In respect of any meeting of grantees referred to in paragraph 19, all the provisions of the constitutional documents for the time being of the Company as to general meetings of the Company shall mutatis mutandis apply as though the options were a class of shares forming part of the capital of the Company except that:

- (a) not less than seven days' notice of such meeting shall be given;
- (b) a quorum at any such meeting shall be two grantees present in person or by proxy and holding options entitling them to the issue of one-tenth in nominal value of all Shares which would fall to be issued upon the exercise of all options then outstanding unless there is only one grantee holding all options then outstanding, in which case the quorum shall be one grantee;

- (c) every grantee present in person or by proxy at any such meeting shall be entitled on a show of hands to one vote, and on a poll, to one vote for each Share to which he or she would be entitled upon exercise in full of his options then outstanding;
- (d) any grantee present in person or by proxy may demand a poll; and
- (e) if any such meeting is adjourned for want of a quorum, such adjournment shall be to such date and time, not being less than seven or more than 14 days thereafter, and to such place as may be appointed by the chairman of the meeting. At any adjourned meeting those grantees who are then present in person or by proxy shall form a quorum and at least seven days' notice of any adjourned meeting shall be given in the same manner as for an original meeting and such notice shall state that those grantees who are then present in person or by proxy shall form a quorum.

20. CANCELLATION OF OPTIONS

Any cancellation of options granted but not exercised must be approved by the grantee of the relevant options in writing for the avoidance of doubt, such approval is not required in the event any option is cancelled pursuant to paragraph 12 and 16. Where the Company cancels options and issues new ones to the same grantee, the issue of such new options may only be made under the Proposed Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by Shareholders.

21. TERMINATION OF THE PROPOSED SHARE OPTION SCHEME

The Company may by resolution in general meeting or the Board may at any time resolve to terminate the Proposed Share Option Scheme and in such event no further option shall be offered but the provisions of the Proposed Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of this Scheme. Details of the options granted, including options exercised or outstanding, under the Proposed Share Option Scheme shall be disclosed in the circular to Shareholders seeking approval of the new scheme established after the termination of the Proposed Share Option Scheme.

22. CONDITIONS OF THE PROPOSED SHARE OPTION SCHEME

The terms of the Proposed Share Option Scheme are in compliance with the Main Board Listing Rules. The Proposed Share Option Scheme is conditional on:

- (i) the approval of the Shareholders at the EGM on the termination of the GEM Share Option Scheme;
- (ii) the approval of the Shareholders at the EGM on the adoption of the Proposed Share Option Scheme by the Company and the issue of Shares pursuant to the exercise of any options which may be granted thereunder;
- (iii) the Main Board Listing Committee granting approval of the listing of, and permission to deal in, on the Main Board, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Proposed Share Option Scheme; and
- (iv) the commencement of dealing in Shares on the Main Board.

23. DISCLOSURE IN ANNUAL AND HALF-YEARLY REPORTS

The Company will disclose details of the options granted under the Proposed Share Option Scheme in its annual and half-yearly reports in accordance with the Main Board Listing Rules in force from time to time.

This is an explanatory statement to provide all Shareholders with requisite information relating to the Repurchase Resolution to be proposed at the EGM authorising the Buyback Mandate.

This explanatory statement contains all the information required pursuant to Rule 10.06 of the Main Board Listing Rules, which is set out as below:

1. MAIN BOARD LISTING RULES FOR REPURCHASES OF SHARES

The Main Board Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their fully-paid shares on Main Board subject to certain restrictions, the more important of which are summarised below:

(a) Shareholders' approval

All proposed repurchase of securities on the Stock Exchange by a company with primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction.

(b) Share capital

Under the Buyback Mandate, the number of Shares that the Company may repurchase shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of the relevant resolutions. The Company's authority is restricted to purchases made on Main Board in accordance with the Main Board Listing Rules.

As at the Latest Practicable Date, there were in issue an aggregate of 540,232,860 Shares. Exercise in full of the Buyback Mandate, on the basis that no further Shares would be issued or repurchased prior to the date of the EGM, would accordingly result in up to 54,023,286 Shares being repurchased by the Company.

(c) Reasons for repurchase

The Directors have no present intention to repurchase any Shares but consider that the Buyback Mandate will provide the Company with the flexibility to make such repurchase as and when appropriate and is beneficial to the Company. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and its assets and/or its earnings per Share. As compared with the position of the Company in its financial statements for the year ended 31 December 2007 (being the most recent published audited accounts), the Directors consider that there would not be any material adverse impact on the working capital and on the gearing position of the Company in the event that the proposed repurchases were to be made in full during the proposed repurchase period. However, the Directors will not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(d) Funding of repurchases

Repurchase of the Shares will be funded out of funds legally available for such purpose in accordance with the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

The Company is empowered by its memorandum and articles of association to repurchase its Shares. The Cayman Islands law provides that the amount of capital repaid in connection with a share repurchase may only be paid out of either the capital paid up on the relevant shares, or the profits that would otherwise be available for distribution by way of dividend or the proceeds of a new issue of shares made for such purpose. The amount of premium payable on redemption may only be paid out of either the profits that would otherwise be available for distribution by way of dividend or out of the share premium of the Company. Under the Cayman Islands law, the repurchased Shares will remain part of the authorised but unissued share capital.

(e) Connected persons

None of the Directors nor, to the best of the knowledge and belief of the Directors having made all reasonable enquiries, any of the associates of any of the Directors has any present intention, in the event that the proposed Buyback Mandate is approved by the Shareholders, to sell Shares to the Company.

At the Latest Practicable Date, no connected person (as defined in the Main Board Listing Rules) of the Company has notified the Company that he/she has a present intention to sell Shares to the Company nor has he/she undertaken not to sell any of the Shares held by him/her to the Company in the event that the Company is authorised to make repurchases of Shares.

(f) Undertaking by Directors

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchase pursuant to the Buyback Mandate and in accordance with the Main Board Listing Rules, the memorandum and articles of association of the Company and any applicable laws of the Cayman Islands.

(g) Effect of takeovers code and minimum public float

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of Rule 32 of the Hong Kong Code on Takeovers and Mergers ("**Code**"). As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Code), depending on the level of increase in the Shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date, the register of the Shareholders maintained by the Company pursuant to Section 336 under Part XV of the SFO showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital:

Name of Shareholder	Number of Shares held	Approximate percentage of existing shareholding	Approximate percentage of shareholding if the Repurchase Mandate is exercised in full
Liu Dejian (<i>Note 1</i>)	278,959,040	51.64%	57.38%
Liu Luyuan (<i>Note 1</i>)	278,959,040	51.64%	57.38%
Zheng Hui (<i>Note 1</i>)	278,959,040	51.64%	57.38%
DJM Holding Ltd. (<i>Note 2</i>)	183,402,600	33.95%	37.72%
Fitter Property Inc. (<i>Note 3</i>)	35,498,720	6.57%	7.30%
Eagle World International Inc. (<i>Note 4</i>)	33,712,920	6.24%	6.93%
Flowson Company Limited (<i>Note 4</i>)	33,712,920	6.24%	6.93%
IDG Group (<i>Note 5</i>)	78,333,320	14.51%	16.12%

Notes:

1. Liu Dejian is interested in 95.4% of the issued share capital of DJM Holding Ltd., which in turn is interested in 33.95% of the issued share capital of the Company. Liu Luyuan is interested in 100% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 4.88% of the issued share capital of the Company.

Zheng Hui is interested in 4.6% and 100%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 33.95% and 6.57%, 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% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.24% 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 51.64% 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.

2. DJM Holding Ltd. is an investment holding company incorporated on 30 October 2003 in the BVI with limited liability and is owned as to approximately 95.4% and 4.6%, respectively, by each of Liu Dejian (brother of Liu Luyuan and Liu Ming) and Zheng Hui, both being executive Directors.
3. Fitter Property Inc. is an investment holding company incorporated on 13 April 2006 in the BVI with limited liability and is owned as to 100% by Zheng Hui, an executive Director.
4. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and is owned as to 100% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.24% of the issued share capital of the Company through its shareholding in Eagle World International Inc.

5. The IDG Group is comprised of five limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG Technology Venture Investments III, L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 9.87%, 2.19%, 1.79%, 0.45% and 0.21%, 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 Technology Venture Investments III, L.P. is controlled by its sole general partner, IDG Technology Venture Investments III, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.
 - c) 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% by each of Zhou Quan and Patrick J. McGovern.
 - d) IDG-Accel China Investors is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100% by James W. Breyer.

In the event that the Directors shall exercise in full the Buyback Mandate, the total interests of the above Shareholders would be increased to approximately the respective percentages shown in the last column above. As at the Latest Practicable Date, Liu Dejian, Liu Luyuan and Zheng Hui, as parties acting in concert (the “**Concert Parties**”), are beneficially interested in 278,959,040 Shares, representing approximately 51.64% of the issued share capital of the Company. As DJM Holding Ltd. is a corporation controlled by Liu Dejian, one of the Concert Parties, the interest in the Company held by DJM Holding Ltd. is accordingly regarded as part of the interest in the Company held by the Concert Parties and the increase of shareholding in the Company by DJM Holding Ltd. is examined with reference to the total increase of shareholding in the Company by the Concert Parties. In the event that the Directors should exercise in full the Buyback Mandate, the aggregate shareholding of the Concert Parties will be increased to approximately 57.38% of the issued share capital of the Company. Accordingly, a mandatory offer under Rule 26 of the Takeovers Code will not arise as a result of the exercise in full of the Buyback Mandate.

Assuming that there is no issue of Shares in the Company between the Latest Practicable Date and the date of a repurchase, an exercise of the Buyback Mandate whether in whole or in part will not result in less than the relevant prescribed minimum percentage of the Shares of the Company being held by the public as required by the Stock Exchange. The Directors have no intention to exercise the Buyback Mandate to an extent as may result in a public shareholding of less than such prescribed minimum percentage.

2. SHARE PURCHASE MADE BY THE COMPANY

As at the Latest Practicable Date, the Company repurchased 15,975,000 shares on the Stock Exchange at an aggregate consideration of HK\$195,055,346.66 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. Details of the share repurchases are as follows:

Month of repurchases	Number of ordinary Shares repurchased	Highest price paid per Share <i>HK\$</i>	Lowest price paid per Share <i>HK\$</i>	Aggregate consideration paid <i>HK\$</i>
2007				
December	116,500	14.48	14.16	1,670,410.00
2008				
January	4,159,500	13.50	12.40	54,823,486.66
February	11,699,000	13.00	11.04	138,561,450.00
Total	15,975,000			195,055,346.66

The repurchased shares were cancelled on delivery of the share certificates during the year. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the relevant aggregate consideration was paid out from the Company's retained profits.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Shares during the previous six months immediately preceding the Latest Practicable Date.

3. SHARE PRICES

The highest and lowest prices at which the Shares traded on the Stock Exchange during each of the previous seven months immediately preceding the Latest Practicable Date since the Shares became listed on GEM on 2 November 2007 were as follows:

Month	Price per Share	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2007		
November	19.00	12.10
December	16.74	13.40
2008		
January	17.40	12.16
February	13.80	11.00
March	12.28	7.91
April	12.30	8.96
May (up to the Latest Practicable Date)	13.60	10.52

NOTICE OF THE EGM

NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

(Stock code on Main Board: 777)

(Stock code on GEM: 8288)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of NetDragon Websoft Inc. (the “Company”) will be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on 12 June 2008 at 10:00 a.m., Hong Kong, for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions, with or without modifications: and adopted by the Company and the board of directors of the Company (the “Board”) be and is hereby authorised, at its absolute discretion, to grant options to subscribe for Shares (as defined below) thereunder and to allot, issue and deal with any Shares (as defined below) pursuant to the exercise of the subscription rights under any option which may be granted under the Proposed Share Option Scheme (as defined below) and to do all such acts as it may in its absolute discretion consider necessary or expedient in order to give full effect to the Proposed Share Option Scheme (as defined below) and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same; and

ORDINARY RESOLUTIONS

1. “**THAT:**

- (A) conditional upon (1) the Listing Committee of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) granting approval of the listing of, and permission to deal on the main board of the Stock Exchange in, (i) the shares of US\$0.01 each in the issued share capital of the Company (“Shares”); (ii) any Shares which may be issuable upon the exercise of any options which were granted under the share option scheme adopted by the Company pursuant to a resolution passed by the shareholders of the Company on 15 October 2007 (“GEM Share Option Scheme”); (iii) any Shares which may be issuable upon the exercise of any options which may be granted under the proposed share option scheme to be conditionally adopted at the extraordinary general meeting (“Proposed Share Option Scheme”) (as defined in resolution no. 2 set out in the notice convening this meeting), if the same having been approved; (2) the publication by the Company of a notice in respect of the proposed withdrawal of listing of the Shares on the Growth Enterprise Market of the Stock Exchange (“GEM”) (“Proposed Withdrawal”) which shall be published not less than such period as the shareholders of the Company shall approve under resolution no. (B) in this resolution no. 1, prior to the date on which the Proposed Withdrawal is effective; and (3) the obtaining of all other relevant consents which are required in connection with the implementation of the Proposed Withdrawal and the Proposed Introduction and the fulfillment of all conditions which may be attached to such consents, if any, the listing of the Shares on GEM shall cease with effect from such date and time as the directors of the

NOTICE OF THE EGM

Company (“Directors”) may designate and as acceptable to the Stock Exchange and any Director or the company secretary of the Company be and is hereby authorised generally to do all such acts for and on behalf of the Company as he/she may deem necessary, desirable or expedient to effect and implement the forgoing; and

(B) the notice period required under Rule 9.19(3) of the Rules Governing the Listing of Securities on the GEM in connection with the Proposed Withdrawal be reduced to a minimum period of five clear days on which the Stock Exchange is open for the business of dealing in securities from the date on which the shareholders of the Company shall have approved the Proposed Withdrawal.”

2. “**THAT** conditional upon the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal on the main board of the Stock Exchange in, (i) the Shares; (ii) any Shares which may be issuable upon the exercise of any options which were granted under the GEM Share Option Scheme (as defined in resolution no. 1 set out in the notice convening this meeting); (iii) any Shares which may be granted under the new share option scheme (“Proposed Share Option Scheme”) (the rules of which are set out in the document marked “A” produced to this meeting and initialed by the Chairman of this meeting for the purpose of identification); and upon the commencement of dealing in the Shares on the main board of the Stock Exchange:

(A) the Proposed Share Option Scheme be and is hereby approved and adopted by the Company and the Board be and is hereby authorised, at its absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with any Shares pursuant to the exercise of the subscription rights under any option which may be granted under the Proposed Share Option Scheme and to do all such acts as it may in its absolute discretion consider necessary or expedient in order to give full effect to the Proposed Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same; and

(B) the GEM Share Option Scheme be terminated with effect from the date on which the Proposed Share Option Scheme becomes unconditional and effective.”

3. “**THAT**:

(A) subject to paragraph 3(C), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(B) the approval in paragraph 3(A) shall authorise the Directors during the Relevant Period (as defined hereinafter) to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

NOTICE OF THE EGM

(C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to the approval in paragraph 3(A), otherwise than pursuant to a Rights Issue (as hereinafter defined) or any option scheme or similar arrangement for the time being adopted for the grant or issue to participants of the Company, its subsidiaries, and its ultimate holding company (if any) which is also listed on the Stock Exchange and its subsidiaries, of shares or right to acquire shares in the Company shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly;

(D) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

1. the conclusion of the next annual general meeting of the Company;
2. the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
3. the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong); and

(E) the general mandate to issue shares in the Company granted to the Directors pursuant to ordinary resolution no.5A as set out in the notice of the annual general meeting of the Company held on 28 April 2008 be and is hereby revoked.”

NOTICE OF THE EGM

4. **“THAT:**

(A) subject to paragraph 4(B), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase issued shares in the capital of the Company on the Stock Exchange or on any other stock exchange on which the shares in the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of The Rules Governing the Listing of Securities on the Stock Exchange or on any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

(B) the aggregate nominal amount of shares in the Company to be repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the approval in paragraph 4(A) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the said approval be limited accordingly;

(C) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

1. the conclusion of the next annual general meeting of the Company;
2. the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
3. the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

(D) the general mandate to repurchase shares in the Company granted to the Directors pursuant to resolution no.5B as set out in the notice of the annual general meeting of the Company held on 28 April 2008 be and is hereby revoked.”

5. **“THAT** conditional upon resolutions nos. 3 and 4 above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in resolution no.4 above be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to resolution no. 3 above.”

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

Hong Kong, 27 May 2008

NOTICE OF THE EGM

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

- (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.

This notice for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This notice will remain on the GEM website on the "Latest Company Announcement" page and on the website of the Company at www.nd.com.cn for at least 7 days from the date of its posting.