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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)

CHANGE OF USE OF PROCEEDS

The board of directors of the Company would like to announce that the Company will change the use of net proceeds from the International Placing as previously disclosed in the GEM Prospectus and Main Board Listing Document.

Reference is made to the prospectus (the “**GEM Prospectus**”) of NetDragon Websoft Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 23 October 2007 in relation to the international placing (the “**International Placing**”) of the Company’s shares (the “**Shares**”) and the listing of the Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the listing document (the “**Main Board Listing Document**”) of the Company dated 27 May 2008 in relation to the listing of the Shares on the Main Board of the Stock Exchange.

It is estimated in the GEM Prospectus that approximately HK\$682.3 million of the total amount of the net proceeds from the International Placing is intended to be applied for the expansion of the Group’s business through acquisition or cooperation with external parties. It is stated in the Main Board Listing Document that based on the actual amount of net proceeds raised from the International Placing, the amount to be applied for such purpose is approximately HK\$949.8 million.

As disclosed in the section headed “Comparison of Business Objectives with Actual Business Progress” of the Main Board Listing Document, the Group has formed a business development team to evaluate acquisition and merger opportunities and was negotiating with potential game development studios and game operators to evaluate cooperation and merger and acquisition possibilities. However, given the current difficult financial environment and slowdown in the world economy, the Group has not been able to identify any target for merger and acquisition which is value accretive to the shareholders of the Company. As at the date of this announcement, no net proceeds from the International Placing has been used for the aforesaid purpose.

In light of the foregoing, and in view of the overall development of the Group, the Company intends to re-allocate approximately HK\$153.0 million of net proceeds from the International Placing originally designated for acquisition or cooperation with external parties as general working capital of the Group.

It is also estimated in the GEM Prospectus that approximately HK\$146.6 million of the total amount of the net proceeds from the International Placing is intended to be applied to strengthen the Group's corporate image and promote its games. It is further stated in the Main Board Listing Document that based on the actual amount of net proceeds raised from the International Placing, the amount to be applied for such purpose is approximately HK\$160.0 million.

As disclosed in the 2007 annual report and the 2008 interim report of the Company, the actual amount applied to strengthen the Group's corporate image and promote its games for the year ended 31 December 2007 and the six months ended 30 June 2008 was approximately HK\$15.0 million and HK\$15.1 million respectively. Therefore, the Company intends to re-allocate surplus of approximately HK\$22.9 million of the net proceeds from the International Placing originally designated to strengthen the Group's corporate image and promote its games for the year ended 31 December 2007 and the six months ended 30 June 2008 as general working capital of the Group.

As such, the Company intends to in aggregate re-allocate approximately HK\$175.9 million of the net proceeds from the International Placing as general working capital of the Group, and subject to market conditions and the price performance of the Shares, such reallocated net proceeds might be utilized for the repurchase of Shares.

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

Hong Kong, 22 October 2008

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Liu Dejian, Mr. Liu Luyuan, Mr. Zheng Hui and Mr. Chen Hongzhan; one non-executive director, namely Mr. Lin Dongliang and three independent non-executive directors, namely Mr. Chao Guo Wei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas.