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## **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**

**Sponsor**



**First Shanghai Capital Limited**

The Company is proposing to list the Shares on the Main Board by way of introduction. Immediately prior to the listing of the Shares on the Main Board, the listing of the Shares on GEM will be withdrawn.

In connection with the Proposed Introduction, the Company proposes to terminate the GEM Share Option Scheme and to adopt the Proposed Share Option Scheme, and to obtain the grant of new general mandates to issue and repurchase Shares in substitution for the Existing General Mandates, to comply with the requirements under the Main Board Listing Rules. In connection with the Proposed Withdrawal, the Company has also applied for, 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 to not less than five clear Business Days.

On 23 May 2008, the Sponsor was notified that the Listing Committee granted an approval in principle of the proposed listing of, and the 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 were 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 Circular containing, amongst other matters, the EGM Notice will be despatched to the Shareholders on 27 May 2008. The Listing Document issued in connection with the Proposed Introduction will also be despatched to the Shareholders, for information purposes only, on 27 May 2008.

### **Warning**

**There is no assurance that permission will be obtained from the Stock Exchange for the Proposed Introduction. 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 below being fulfilled, 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.**

## **INTRODUCTION**

On 20 March 2008, the Board announced that an advance booking form to the Stock Exchange for the Proposed Introduction was submitted by the Sponsor on behalf of the Company and the GEM was also notified of the Company's intention to implement the Proposed Withdrawal subject to the conditions set out below. On 23 May 2008, the Sponsor was notified that the Listing Committee granted an approval in principle of the proposed listing of, and the 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 were 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 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 were granted under the GEM Share Option Scheme; and (2) the exercise of any options which may be granted under the Proposed Share Option Scheme.

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.

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.

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, on the Main Board the Shares mentioned under the paragraph headed "The Proposed Withdrawal and the Proposed Introduction" above;
- (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**

It is expected that dealings in the Shares on GEM will cease at the 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 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.**

## **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.

## EXPECTED TIMETABLE

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

2008

Despatch of the Listing Document, the 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](http://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.

## 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 will comply with the requirements of Chapter 17 of the Main Board Listing Rules in substitution of the existing GEM Share Option Scheme.

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.

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.

## 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, 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 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 the 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 is to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 12 June 2008 at 10:00 a.m. or any adjournment thereof at which ordinary resolutions will be proposed to the Shareholders 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.

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.

## **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 revocation of the Existing General Mandates and the proposed grant of new general mandates to issue and repurchase Shares 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.

## **GENERAL**

The Circular containing, among other things, the EGM Notice will be despatched to the Shareholders on 27 May 2008. The Listing Document issued in connection with the Proposed Introduction will also be despatched to the Shareholders on 27 May 2008.

## DEFINITIONS

“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
“Circular”	the circular to the Shareholders to be despatched by the Company on 27 May 2008
“Company”	NetDragon Websoft Inc., a company incorporated in the Cayman Islands with limited liability whose shares are listed on GEM
“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
“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

“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 the Circular for the purpose of ascertaining certain information for inclusion in the 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 the 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 the Circular
“Proposed Withdrawal”	the proposed voluntary withdrawal of the listing of the Shares on GEM
“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
“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.

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

Hong Kong, 26 May 2008

*As at the date of this announcement, the Board comprises:*

*Executive Directors:*

Mr. Liu Dejian

Mr. Liu Luyuan

Mr. Zheng Hui

Mr. Chen Hongzhan

*Non-executive Directors:*

Mr. Lin Dongliang

*Independent non-executive Directors:*

Mr. Chao Guowei, Charles

Mr. Lee Kwan Hung

Mr. Liu Sai Keung, Thomas

*This announcement for which the directors of the Company (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 announcement will remain on the GEM website on the “Latest Company Announcement” page for at least 7 days from the date of its posting and on the website of the Company at [www.nd.com.cn](http://www.nd.com.cn).*