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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)**

**ANNOUNCEMENT  
DISCLOSEABLE AND CONNECTED TRANSACTION**

**SHARES TRANSFER AGREEMENT**

The Board is pleased to announce that on 6 May 2010, Main Honour, entered into the Shares Transfer Agreement with DJM, pursuant to which DJM agreed to sell and Main Honour agreed to purchase the entire equity interests in Fujian TianDi and the Debt for a Consideration of USD9,932,368 (equivalent to approximately HK\$77,131,000).

Fujian TianDi is a limited liability company established in the PRC with a business scope of digital animation and digital three dimensional development, software development and information consultation services. As at the date of this announcement, Fujian TianDi is still at the preparation stage for the operation of its business and its principal asset is the Property. The Property is located adjoining the Owned Land owned by the Group. It is the current intention of the Group to develop the Property and the Owned Land as (i) an education centre for online game design and animation experts; (ii) an interactive convention centre for online game and animation products; and (iii) the Group's new head office and staff quarters. As at the date of this announcement, there are commitments of approximately RMB16,000,000 (equivalent to approximately HK\$18,201,000) for the continuous constructions and decorations of the Property and the Owned Land. Such commitments will be taken up and payable by the Group upon the Completion. Except for such commitments, no concrete legally binding plan or commitment on the further development of the Property and the Owned Land has been finalised. Nonetheless, the executive Directors believed that the Acquisition will enhance the value of the Owned Land and the Property as a whole which will be more suitable for the potential expansion of the Group's business in the industry.

Based on the information available to the Group, the Directors (excluding the independent non executive Directors who will express their views after having considered the advice of the Independent Financial Adviser) are of the view the Acquisition is made on normal commercial terms, that its terms are fair and reasonable, and that the Acquisition and its terms are in the interests of the Group and the Shareholders as a whole.

### **DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION**

As the applicable percentage ratio(s) (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. In addition, DJM is a Substantial Shareholder whereas Liu Dejian, a Director, is interested in approximately 95.40% of the issued share capital of DJM. Accordingly, DJM is a connected person of the Company under the Listing Rules. The Acquisition therefore constitutes a connected transaction and is subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the EGM.

A circular containing, among other things, (i) details of the Acquisition; (ii) the recommendation of the Independent Board Committee regarding the Shares Transfer Agreement and the transactions contemplated thereunder to the Independent Shareholders; (iii) a letter from Somerley Limited, the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the Shares Transfer Agreement and the transactions contemplated thereunder; (iv) a valuation report from the Independent Valuer on the valuation of the Property; (v) a notice to convene the EGM; and (vi) other information required under the Listing Rules, will be despatched to the Shareholders as soon as practicable.

### **THE SHARES TRANSFER AGREEMENT**

#### *Date*

6 May 2010

#### *Parties*

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

### *Sale and purchase*

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

### *Conditions precedent:*

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

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

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

### *Consideration*

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

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

### **INFORMATION OF FUJIAN TIANDI**

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

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

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

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

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

## **REASONS FOR THE ACQUISITION**

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

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

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

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

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

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

Based on the information available to the Group, the Directors (excluding the independent non-executive Directors who will express their views after having considered the advice of the Independent Financial Adviser) are of the view the Acquisition is made on normal commercial terms, that its terms are fair and reasonable, and that the Acquisition and its terms are in the interests of the Group and the Shareholders as a whole.

## **DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION**

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

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

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

#### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

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

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

## DESPATCH OF CIRCULAR

A circular containing, among other things, (i) details of the Acquisition; (ii) the recommendation of the Independent Board Committee regarding the Shares Transfer Agreement and the transactions contemplated thereunder to the Independent Shareholders; (iii) a letter from Somerley Limited, the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders on the Shares Transfer Agreement and the transactions contemplated thereunder; (iv) a valuation report from the Independent Valuer on the valuation of the Property; (v) a notice to convene the EGM; and (vi) other information required under the Listing Rules, will be despatched to the Shareholders as soon as practicable.

## DEFINITIONS

“Acquisition”	the acquisition of the entire equity interests of Fujian TianDi and the Debt pursuant to the Shares Transfer Agreement
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturdays, Sundays and other public holidays) on which companies are generally open for business in the PRC
“BVI”	the British Virgin Islands
“Company”	NetDragon Websoft Inc., an exempted company incorporated in the Cayman Islands with limited liability, and the securities of which are listed on the Stock Exchange
“Completion”	completion of the Shares Transfer Agreement in accordance with its terms
“Completion Date”	the date on which the Completion shall take place on the tenth Business Day after the Conditions Fulfilment Date or at such later time or date as DJM and Main Honour may agree
“Conditions Fulfilment Date”	the date on which all conditions precedent to the Shares Transfer Agreement are fulfilled (or waived) pursuant to the terms of the Shares Transfer Agreement



“Consideration”	the sum of USD9,932,368 (equivalent to approximately HK\$77,131,000) for the entire equity interests in Fujian TianDi and the Debt, being the consideration for the Acquisition
“Controlling Shareholders”	the Group’s controlling shareholders (having the meaning ascribed thereto in the Listing Rules), being DJM, Fitter Property Inc., Richmedia Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan, Eagle World International Inc. and Flowson Company Limited
“Debt”	the shareholder’s loan of HK\$12,000,000, being the shareholder’s loan currently owing by Fujian TianDi to DJM as at the date of the Shares Transfer Agreement, which is non-trade in nature, unsecured, with an interest charged at 5% per annum and repayable within three (3) years from the date of the loan agreement entered into between Fujian TianDi and DJM on 28 November 2009
“Director(s)”	the director(s) of the Company
“DJM”	DJM Holding Ltd., a company established in BVI on 30 October 2003, a Substantial Shareholder which is interested in approximately 35.01% of the issued share capital of the Company
“EGM”	an extraordinary general meeting of the Company to be held for the purpose of considering and approving the Acquisition and transactions contemplated thereof
“Excluded Assets”	two luxury vehicles owned by Fujian TianDi, of which the executive Directors consider are not valuable to the development of the Group and which will be transferred to DJM or its designated party, with such consideration to be payable directly by the purchaser to DJM, within 180 Business Days after the Completion
“Fujian TianDi”	Fujian TianDi Animation Technologies Co. Ltd. (福建天棣動漫科技有限公司), a company registered in the PRC with limited liability on 19 February 2008, whose business scope includes digital animation and digital three dimensional development, software development and information consultation services. and whose equity interest is wholly owned by DJM

“Group”	the Company, its subsidiaries and such entities which are considered as subsidiaries of the Company under the applicable accounting standard and policy
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	comprises of three independent non executive Directors of the Company
“Independent Financial Adviser”	Somerley Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Shares Transfer Agreement and the transactions contemplated thereof
“Independent Shareholder(s)”	Shareholder(s) which is(are) independent from and not connected with any of the Directors, chief executive or Substantial Shareholders of the Company or any of its subsidiaries or any of their respective associates
“Independent Valuer”	Asset Appraisal Limited, an independent valuer not connected with the Company and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	31 July 2010 or such other date as agreed between Main Honour and DJM
“Main Honour”	Main Honour Holdings Limited, a company incorporated in Hong Kong with limited liability on 1 April 2010 and an indirectly wholly-owned subsidiary of the Company
“Owned Land”	a parcel of land located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (中國福建省長樂市湖南鎮大鶴村) with a site area of approximately 197,664 sq. m. which is currently owned by the Group

“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau, Special Administrative Region of the PRC and Taiwan)
“Property”	buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (中國福建省長樂市湖南鎮大鶴村)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares Transfer Agreement”	the agreement entered into between Main Honour, as the purchaser, with DJM, as the vendor, pursuant to which DJM agreed to sell and Main Honour agreed to purchase the entire equity interests of Fujian TianDi and the Debt
“Share(s)”	the ordinary share(s) of USD0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Shareholder(s)”	holder(s) of the Shares
“sq. m.”	square metres
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“USD”	US Dollar, the lawful currency of the United State of America

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

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

Hong Kong, 6 May 2010

*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 Guowei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas.*