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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)

#### **CONTINUING CONNECTED TRANSACTIONS**

On 22 January 2009, TQ Digital entered into the Tenancy Agreement I with Fuzhou 851 to supersede the Old Lease Agreement I proposed to be entered into pursuant to the Letter of Intent.

On 22 January 2009, NetDragon (Fujian) entered into the Tenancy Agreement II with Fuzhou 851 to supersede the Old Lease Agreement II and the Old Lease Agreement III.

Fuzhou 851 is owned as to approximately 46.26%, 26.87% and 26.87% by DJM Holding Ltd., a substantial shareholder of the Company, Liu Dejian, an executive Director, and Yang Zhenhua, the mother of Liu Dejian, respectively and is a connected person of the Company under the Listing Rules. The entering into of the Tenancy Agreement I and the Tenancy Agreement II constitutes continuing connected transactions of the Company and should be aggregated under the Listing Rules.

Given that the transaction amounts under the Tenancy Agreement I and Tenancy Agreement II (which are aggregated under Rule 14A.25 of the Listing Rules) on annual basis fall within the threshold prescribed in Rule 14A.34 of the Listing Rules, the entering into of the Tenancy Agreement I and Tenancy Agreement II is only subject to the reporting, announcement and annual review requirements under Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirement of Chapter 14A of the Listing Rules.

The Board announces that on 22 January 2009, TQ Digital entered into the Tenancy Agreement I with Fuzhou 851 to supersede the Old Agreement I proposed to be entered into pursuant to the Letter of Intent; and NetDragon (Fujian) entered into the Tenancy Agreement II with Fuzhou 851 to supersede the Old Lease Agreement II and the Old Lease Agreement III.

A summary of the principal terms of the Tenancy Agreements is as follows:

## **1. TENANCY AGREEMENT I**

Date: 22 January 2009

Parties: (a) Fuzhou 851 as landlord  
(b) TQ Digital as tenant

Premises: A premises with a total gross floor area of approximately 5,678.65 sq.m. of the 851 New Building

Term: For a period of 3 years commencing from 22 January 2009 to 21 January 2012 (both days inclusive)

Rent: Total annual rent of RMB1,908,000 (equivalent to approximately HK\$2,156,040) (which shall not be adjusted during the term)

Payable Term: Monthly rent of approximately RMB159,000 (equivalent to approximately HK\$179,670) which shall be payable in advance on a quarterly basis five (5) working days prior to the end of each quarter

Deposit: RMB318,000 (equivalent to approximately HK\$359,340) (payable within three working days upon the signing of the Tenancy Agreement I and shall be refunded to TQ Digital without interest within three working days upon the expiry or termination of the Tenancy Agreement I provided that TQ Digital has not breached any of the terms and conditions of the Tenancy Agreement I)

Purposes: General office purposes

## **2. TENANCY AGREEMENT II**

Date: 22 January 2009

Parties: (a) Fuzhou 851 as landlord  
(b) NetDragon (Fujian) as tenant

Premises: A premises with a total gross floor area of approximately 1,894 sq.m. consisting of (i) certain offices on the first floor and its ancillary facilities; and (ii) office premises on the second and third floors of the 851 Building

Term: For a period of 3 years commencing from 22 January 2009 to 21 January 2012 (both days inclusive)

Rent: Total annual rent of RMB636,384 (equivalent to approximately HK\$719,113.92) (which shall not be adjusted during the term)

Payable Term: Monthly rent of approximately RMB53,032 (equivalent to approximately HK\$59,926.16) which shall be payable in advance on a quarterly basis five (5) working days prior to the end of each quarter

Deposit: RMB106,000 (equivalent to approximately HK\$119,780) (payable within three working days upon the signing of the Tenancy Agreement II and shall be refunded to NetDragon (Fujian) without interest within three working days upon the expiry or termination of the Tenancy Agreement II provided that NetDragon (Fujian) has not breached any of the terms and conditions of the Tenancy Agreement II

Purposes: General office purposes

#### **AGGREGATE ANNUAL CAP OF THE TENANCY AGREEMENTS**

The Aggregate Annual Cap for the Tenancy Agreements based on the total annual rental payable under the Tenancy Agreements for each of the financial years ending 31 December 2009, 2010 and 2011 will not exceed RMB2,544,384 (equivalent to approximately HK\$2,875,153.92).

Save as the Tenancy Agreements, there are no other existing continuing connected transactions with Fuzhou 851 and its associates which are discloseable under the Listing Rules.

#### **REASONS AND BENEFITS FOR ENTERING INTO THE TENANCY AGREEMENTS**

The Directors consider that since (i) the total gross floor area of 851 New Building to be occupied by the Group is increased from approximately 4,200 sq.m under the Old Lease Agreement I proposed to be entered into under the Letter of Intent to approximately 5,678.65 sq.m. under the Tenancy Agreement I, and (ii) the average annual rental is decreased from approximately RMB431.90 (equivalent to approximately HK\$488.05) per sq.m under the Old Lease Agreement I to approximately RMB336 (equivalent to approximately HK\$379.68) per sq.m. under the Tenancy Agreement I, it is fair and reasonable for the Group to enter into the Tenancy Agreement I to supercede the Old Lease Agreement I proposed to be entered into under the Letter of

Intent. The Directors further consider that since (i) the total gross floor area of 851 Building to be occupied by the Group is increased from approximately 803 sq.m. under the Old Lease Agreement II and Old Lease Agreement III to approximately 1,894 sq.m. under the Tenancy Agreement II, and (ii) the average annual rental is slightly decreased from approximately RMB336.20 (equivalent to approximately HK\$379.91) per sq.m. under the Old Lease Agreement II and Old Lease Agreement III to RMB336 (equivalent to approximately HK\$379.68) per sq.m. under the Tenancy Agreement II, it is also fair and reasonable for the Group to enter into the Tenancy Agreement II to supercede the Old Lease Agreement II and Old Lease Agreement III. The executive Directors confirm that there is no penalty in relation to the amendments of the Old Lease Agreement I and the early terminations of the Old Lease Agreement II and Old Lease Agreement III.

The Directors are of the view that the entering into of the Tenancy Agreements would allow ample office space to facilitate the future expansion and growth of the Group's business. The terms of the Tenancy Agreements were determined after arm's length negotiations between the parties and with reference to the open market rent of comparable properties. Since Asset Appraisal Limited, an independent valuer, is of the opinion that (i) the market rental value of the properties under Tenancy Agreement I as at 21 January 2009 was in the amount of RMB159,000 (equivalent to approximately HK\$179,670) per month, whereas (ii) the market rental value of the properties under Tenancy Agreement II as at 21 January 2009 was in the amount of RMB53,032 (equivalent to approximately HK\$59,926.16), the rental charged by Fuzhou 851 under the Tenancy Agreements is fair and reasonable; and the terms of the Tenancy Agreements are on normal commercial terms after arm's length negotiations.

The Directors, including the independent non-executive Directors, consider that the Tenancy Agreements were entered into in the ordinary and usual course of business of the Group and on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **INFORMATION ON THE GROUP AND FUZHOU 851**

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

Fuzhou 851 is a sino-foreign equity joint venture enterprise established in the PRC, whose principal businesses are the development and manufacturing of health products for consumers in the PRC and overseas.

## LISTING RULES IMPLICATION

Fuzhou 851 is owned as to approximately 46.26%, 26.87% and 26.87% by DJM Holding Ltd., a substantial shareholder of the Company, Liu Dejian, an executive Director and Yang Zhenhua, the mother of Liu Dejian, respectively and is a connected person of the Company under the Listing Rules. The entering of into the Tenancy Agreement I and the Tenancy Agreement II constitutes continuing connected transactions of the Company and should be aggregated under the Listing Rules.

Given that the transaction amounts under the Tenancy Agreement I and Tenancy Agreement II (which are aggregated under Rule 14A.25 of the Listing Rules) on annual basis fall within the threshold prescribed in Rule 14A.34 of the Listing Rules, the entering into of the Tenancy Agreement I and Tenancy Agreement II is only subject to the reporting, announcement and annual review requirements under Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirement of Chapter 14A of the Listing Rules.

## DEFINITIONS

“851 Building”	851 Building (851大樓), which is located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou City, Fujian Province, the PRC
“851 New Building”	851 New Building (新851大樓), which is located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou City, Fujian Province, the PRC and next to 851 Building
“Aggregate Annual Cap”	the aggregate annual cap for the transactions contemplated under the Tenancy Agreements
“Board”	the board of Directors
“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
“Director(s)”	the director(s) of the Company

“Fuzhou 851”	Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (福州楊振華851生物工程技術研究開發有限公司), a sino-foreign equity joint venture enterprise established in the PRC, and whose equity interest in the registered capital is owned as to approximately 46.26%, 26.87% and 26.87% by DJM Holding Ltd., a substantial shareholder of the Company, Liu Dejian, an executive Director, and Yang Zhenhua, the mother of Liu Dejian, respectively and is a connected person of the Company under the Listing Rules
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Glory More”	Glory More Limited, a company incorporated in Hong Kong with limited liability on 31 January 2008 which is wholly and beneficially owned by NetDragon (BVI)
“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
“Letter of Intent”	a letter of intent dated 15 October 2007 entered into between NetDragon (Fujian) and Fuzhou 851, pursuant to which Fuzhou 851 as lessor agreed to enter into the Old Lease Agreement I, details of which are set out in “Relationship with the Controlling Shareholders and non-competition undertakings — Continuing connected transactions exempt from reporting, announcement and independent Shareholders’ approval requirements — De minimis transactions — New Lease Agreements between the Group and Fuzhou 851 — 851 New Building (新851大樓) of the Listing Document”
“Listing Document”	the 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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM, which excludes the options market and which continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“NetDragon (BVI)”	NetDragon Websoft Inc., a company established in BVI on 8 January 2003, which is wholly and beneficially owned by the Company
“NetDragon (Fujian)”	Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司), formerly known as Fuzhou NetDragon Websoft Co., Ltd. (福州網龍計算網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999, and through the Structure Contracts, TQ Digital and TQ Online are able to control NetDragon (Fujian) and accordingly, is regarded as a subsidiary of the Company
“Old Lease Agreement I”	a lease agreement proposed to be entered into between NetDragon (Fujian) and Fuzhou 851 in accordance with the Letter of Intent, pursuant to which Fuzhou 851 as lessor would lease to NetDragon (Fujian) as lessee a premises with a total gross floor area of approximately 4,200 sq.m. consisting of three floors of 851 New Building located next to 851 Building at No.58 Hot Spring Branch Road, Gulou District, Fuzhou, Fujian, the PRC at an annual rental of RMB1,814,000, details of which are set out in “Relationship with the Controlling Shareholders and non-competition undertakings — Continuing connected transactions exempt from reporting, announcement and independent Shareholders’ approval requirements — De minimis transactions — New Lease Agreements between the Group and Fuzhou 851 — 851 New Building (新851大樓) of the Listing Document”

“Old Lease Agreement II”	a lease agreement dated 30 May 2007 entered into between TQ Digital and Fuzhou 851, pursuant to which Fuzhou 851 as lessor agreed to lease to TQ Digital as lessee a premises with a total gross floor area of approximately 714 sq.m. consisting of (i) the conference room on the first floor; (ii) the second floor; (iii) certain offices on the third floor; and (iv) certain portions of the ancillary buildings of 851 Building for a term commenced from 1 July 2007 and ending on 30 June 2010 at an annual rental of RMB240,000, details of which are set out in “Relationship with the Controlling Shareholders and non-competition undertakings — Continuing connected transactions exempt from reporting, announcement and independent Shareholders’ approval requirements — De minimis transactions — New Lease Agreements between the Group and Fuzhou 851 — 851 Building (851大樓) of the Listing Document”
“Old Lease Agreement III”	a lease agreement dated 30 May 2007 entered into between NetDragon (Fujian) and Fuzhou 851, pursuant to which Fuzhou 851 as lessor agreed to lease to NetDragon (Fujian) as lessee a premises with a total gross floor area of approximately 89 sq.m. consisting of (i) certain offices on the first floor; and (ii) certain portions of the ancillary buildings of 851 Building for a term commenced from 1 July 2007 and ending on 30 June 2010 at an annual rental of RMB30,000, details of which are set out in “Relationship with the Controlling Shareholders and non-competition undertakings — Continuing connected transactions exempt from reporting, announcement and independent Shareholders’ approval requirements — De minimis transactions — New Lease Agreements between the Group and Fuzhou 851 — 851 Building (851大樓) of the Listing Document”
“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)
“RMB”	Reminbi, the lawful currency of the PRC

“Share(s)”	the ordinary share(s) of US\$0.01 each in the share capital of the Company
“Structured Contracts”	the structure contracts entered into among the Group’s subsidiaries and affiliates, particulars of which are set out in “Structure Contracts” of the Listing Document
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“sq.m.”	square metres
“Tenancy Agreement I”	a tenancy agreement dated 22 January 2009 entered into between TQ Digital and Fuzhou 851 in relation to the 851 New Building
“Tenancy Agreement II”	a tenancy agreement dated 22 January 2009 entered into between NetDragon (Fujian) and Fuzhou 851 in relation to the 851 Building
“Tenancy Agreements”	Tenancy Agreement I and Tenancy Agreement II
“TQ Digital”	Fujian TQ Digital Inc (福建天晴數碼有限公司), formerly known as Fujian TQ Digital Ind (福建天晴數碼有限公司) and Fuzhou TQ Digital Ind (福州天晴數碼有限公司), a wholly foreign owned enterprise established in the PRC on 28 February 2003, which is wholly and beneficially owned by NetDragon (BVI)
“TQ Online”	Fujian TQ Online Interactive Inc. (福建天晴在綫互動科技有限公司), a wholly foreign owned enterprise established in the PRC on 18 March 2008, which is wholly and beneficially owned by Glory More
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*For the purpose of this announcement, conversion of RMB into Hong Kong dollars is calculated at the conversion rate of HK\$1.13 to RMB1.00. This conversion rate is for purpose of illustration only and does 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, 22 January 2009

*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.*