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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

RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to the Listing Document in relation to the Service Agreement entered into between the Group and Fuzhou Tianliang.

Since the Service Agreement will expire on 31 December 2009, the Board announces that NetDragon (Fujian) entered into the New Service Agreement with Fuzhou Tianliang on 29 December 2009, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2010 to 31 December 2012.

Fuzhou Tianliang is wholly owned by Miss Lin. As disclosed in the announcement of the Company on 27 April 2009, Miss Lin confirmed that she is acting under the instructions of the Controlling Shareholders regarding her interests in Fuzhou Tianliang and therefore, she is deemed to be a connected person to the Company under the Listing Rules.

Given that certain applicable percentage ratios regarding the Annual Service Caps are less than 2.5% but higher than 0.1%, the New Service Agreement is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempt from independent shareholders' approval requirement.

The Directors (including all the three independent non-executive Directors) have approved the New Service Agreement.

DESCRIPTION OF THE NEW SERVICE AGREEMENT CONSTITUTING THE CONTINUING CONNECTED TRANSACTION

Background

Reference is made to the Listing Document in relation to the Service Agreement entered into between the Group and Fuzhou Tianliang.

As disclosed in the Listing Document, the Group entered into the Service Agreement for provision of computer system repair and maintenance service and after-sales service with Fuzhou Tianliang for two and a half years commenced from 1 July 2007 to 31 December 2009. Since the Service Agreement will expire on 31 December 2009, the Group entered into the New Service Agreement on 29 December 2009 for a term of three years commencing from 1 January 2010 to 31 December 2012.

New Service Agreement

Pursuant to the New Service Agreement, Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2010 to 31 December 2012.

A summary of the principal terms of the New Service Agreement is as follows:

Date: 29 December 2009

Parties: (i) Fuzhou Tianliang, as the service provider
(ii) NetDragon (Fujian), as the service consumer

Nature of transaction: The provision of (i) the computer system repair and maintenance service; and (ii) after-sales service.

The computer system repair and maintenance service mainly includes the routine system checking and maintenance and technical diagnosis and repair of system hardware, operating systems, database and application software which are vital to the operations of NetDragon (Fujian) as it ensures the smooth operation and upkeep of the computer systems on which the online games software are being run.

The after-sales service mainly includes the provision of customer hotline services and assistance in responding to customers' enquiries and complaints in online forums and correspondences which are essential for customer management to enhance customer loyalty.

Term: For a period of three years commencing from 1 January 2010 to 31 December 2012 (both days inclusive).

Service fee: A fixed amount multiplied by the sum of monthly incoming call volume, monthly online reported volume and monthly hardware account reported volume of NetDragon (Fujian). Parties may agree to adjust the pricing formula from time to time but any adjustment must be on the basis of the fair and reasonable market value.

Payment term: Payable by the Group in arrear on a monthly basis.

The Directors consider that the terms of the abovementioned service fee, being the consideration to be paid by NetDragon (Fujian) to Fuzhou Tianliang under the New Service Agreement are no less favourable to NetDragon (Fujian) than terms available from Independent Third Parties.

Annual Service Caps for the three financial years of 2010, 2011 and 2012

The Directors estimate that the annual value of the Transactions will not exceed the Annual Service Caps for each of the three years ending 31 December 2012 as follows:

	Year ending 31 December 2010 (RMB)	Year ending 31 December 2011 (RMB)	Year ending 31 December 2012 (RMB)
Technical maintenance fees	2,500,000	2,600,000	2,600,000
After-sales service charges	<u>11,500,000</u>	<u>12,200,000</u>	<u>12,200,000</u>
Total:	<u>14,000,000</u>	<u>14,800,000</u>	<u>14,800,000</u>

The Annual Service Caps have been determined based on:

- (i) historical monthly incoming call volume, monthly online reported volume and monthly hardware account reported volume of NetDragon (Fujian);
- (ii) internal estimated monthly incoming call volume, monthly online reported volume and monthly hardware account reported volume of NetDragon (Fujian) for each of the three years ending 31 December 2012; and
- (iii) the estimated services fee payable to Fuzhou Tianliang for the three years ending 31 December 2012.

The historical fees paid by the Group to Fuzhou Tianliang under the Service Agreement amounted to:

- (i) from 1 July 2007 (being commencement date of Service Agreement) to 31 December 2007: approximately RMB2,091,100;

- (ii) from 1 January 2008 to 31 December 2008: approximately RMB3,661,800; and
- (iii) from 1 January 2009 to 31 October 2009 (being the latest available fee paid by the Group to Fuzhou Tianliang under the Service Agreement): approximately RMB4,944,100.

The Directors, including all the three independent non-executive Directors, consider that the Annual Service Caps are fair and reasonable.

Further, pursuant to the New Service Agreement, Fuzhou Tianliang has undertaken that it would not, and would procure that none of its associates would engage in any business which competes or is likely to compete, directly or indirectly, with those carried on by our Group.

Reasons and benefits for entering into the New Service Agreement

The pricing basis under the Service Agreement is calculated with reference to the number of ACU of NetDragon (Fujian), the pricing formula of which was in line with the then market practice. However, since not every user will cause the relevant network operator to utilise (i) computer system repair and maintenance service; and (ii) after-sales service, being the services under the Service Agreement, the service provider has changed the pricing formula to charge the relevant network operator according to the service provider's actual incoming call volume, online reported volume and hardware account reported volume. Since the pricing formula in the market has changed, the Directors agree to adopt the new pricing formula even though they expect a significant increase of service fee, based on the Group's historical and expected monthly incoming call volume, monthly online reported volume and monthly hardware account reported volume instead of the historical and expected ACU, will be charged under the New Service Agreement, leading to a significant increase of the Annual Service Caps, being RMB14,000,000, RMB14,800,000 and RMB14,800,000 for each of the three years ending 31 December 2012, respectively. The Directors believe that the new pricing formula can better reflect the actual works to be conducted by Fujian Tianliang and which is in line with the market practice.

Due to the Group's staff remuneration policy, the Group pays a higher compensation to each staff member in the Group than that payable by Fuzhou Tianliang to its staff members. The outsourcing of such labour intensive tasks to Fuzhou Tianliang would therefore serve cost-saving purposes by means of effectively limiting the number of the Group's staff and equipment cost. Moreover, due to the relatively low quality of such services available in Fuzhou City, the Directors decided to outsource such services to Fuzhou Tianliang, which is specialised in this area of services and familiar with the Group's operations.

The Directors, including all the three independent non-executive Directors, consider that the New Services Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms and is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Information on the Group and Fuzhou Tianliang

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

Fuzhou Tianliang is a company established in the PRC, whose principal businesses include provisions of computer system repair and maintenance service and after-sales service.

Listing Rules implication

Fuzhou Tianliang is wholly owned by Miss Lin. As disclosed in the announcement of the Company dated 27 April 2009, Miss Lin confirmed that she is acting under the instructions of the Controlling Shareholders regarding her interests in Fuzhou Tianliang and therefore, she is deemed to be a connected person to the Company under the Listing Rules.

Given that certain applicable percentage ratios regarding the Annual Service Caps are less than 2.5% but higher than 0.1%, the New Service Agreement is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempt from independent shareholders' approval requirement.

DEFINITIONS

“ACU”	average concurrent users or players, that is the average daily data over a particular period of time derived from the number of users logged on to one of the Group's launched games at 14-minute intervals
“Annual Service Cap(s)”	the annual service cap(s) for the Transactions
“Board”	the board of Directors
“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

“Controlling Shareholders”	the Group’s controlling shareholders (having the meaning ascribed thereto in the Listing Rules), being DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan, Eagle World International Inc. and Flowson Company Limited
“Director(s)”	the director(s) of the Company
“Fuzhou Tianliang”	Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司), a company established in the PRC with limited liability on 19 April 2006, which is currently wholly owned by Miss Lin
“Group”	the Company, its subsidiaries and such entities which are considered as subsidiaries of the Company under the applicable accounting standard and policy
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“Miss Lin”	林航 (Lin Hang), being the sole shareholder of Fuzhou Tianliang
“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. (福州網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999, and which is one of the Company’s subsidiaries pursuant to the structure contracts entered into between NetDragon (Fujian) and the Company’s subsidiaries and affiliates

“New Service Agreement”	the new service agreement dated 29 December 2009 entered into between NetDragon (Fujian) and Fuzhou Tianliang pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2010 to 31 December 2012
“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”	Renminbi, the lawful currency of the PRC
“Service Agreement”	the agreement for provision of the computer system repair and maintenance service and after-sales service entered into between the Group and Fuzhou Tianliang on 15 October 2007, details of which are set out in “Relationship with the Controlling Shareholders and non-competition undertakings — Continuing connected transaction exempt from independent Shareholders’ approval requirement but subject to reporting and announcement requirements — Agreement for provision of repair and maintenance of computer system service and after-sales service (技術維護及遊戲售後服務外包合同) between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang” of the Listing Document
“Share(s)”	the ordinary share(s) of US\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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, and which is one of the Company’s subsidiaries

“Transactions”

the transactions contemplated under the New Service Agreement

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

Hong Kong, 31 December 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 Guowei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas.