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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)**

**CONNECTED TRANSACTION  
ISSUE OF CONVERTIBLE PROMISSORY NOTE BY A SUBSIDIARY**

On 14 September 2011, 91 Limited, a subsidiary of the Company, entered into the Note Purchase Agreement with the Investors, pursuant to which 91 Limited agreed to issue and sell to the Investors the Notes in the Aggregate Principal Amount, and each Investor, severally but not jointly, agreed to purchase from 91 Limited, such Note in the principal amount as prescribed in the Note Purchase Agreement and in each case, at a purchase price equal to 100% of such principal amount of the Note purchased by such Investor.

The Closing shall take place on the Closing Date.

Since the Investors are members of the IDG Group whereas the IDG Group is a substantial shareholder of the Company, the Investors are considered as connected persons. Accordingly, the transactions contemplated under the Note Purchase Agreement constitute a connected transaction of the Company. As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Note Purchase Agreement, both on a stand alone basis and when aggregated with the Share Purchase Transactions pursuant to Rule 14A.25 of the Listing Rules, are less than 5%, the transactions contemplated under the Note Purchase Agreement, on a stand alone basis and when aggregated with the Share Purchase Transactions, fall within the ambit of Rule 14A.32 of the Listing Rules and are subject to the reporting and announcement requirements and exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **INTRODUCTION**

On 14 September 2011, 91 Limited, a subsidiary of the Company, entered into the Note Purchase Agreement with the Investors, pursuant to which 91 Limited agreed to issue and sell to the Investors the Notes in the Aggregate Principal Amount, and each Investor, severally but not jointly, agreed to purchase from 91 Limited, such Note in the principal amount as prescribed in the Note Purchase Agreement and in each case, at a purchase price equal to 100% of such principal amount of the Note purchased by such Investor. The Closing shall take place on the Closing Date.

## **THE NOTE PURCHASE AGREEMENT**

**Date:** 14 September 2011

**Parties:**

- (a) 91 Limited, the issuer of the Notes;
- (b) IDG-Accel China Growth Fund L.P., as one of the Investors;
- (c) IDG-Accel China Growth Fund-A L.P., as one of the Investors; and
- (d) IDG-Accel China Investors L.P., as one of the Investors.

To the best knowledge, information and belief of the Directors, and after having made all reasonable enquiries, IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P. are members of the IDG Group. As at the date of this announcement, the IDG Group is interested in approximately 14.83% in the Company and is a substantial shareholder of the Company. Accordingly, the Investors are connected persons of the Company pursuant to the Listing Rules.

**Capital Structure:**

Immediately prior to the signing of the Note Purchase Agreement, the authorized share capital of 91 Limited comprises (i) 96,500,000 Ordinary Shares, among which 71,151,000 have been issued to NetDragon (BVI) and 9,615,000 have been issued to Treasure New; and (ii) 15,500,000 Series A Preferred Shares, among which 11,856,450 Series A Preferred Shares were issued to IDG-Accel China Growth Fund L.P.; 2,422,980 Series A Preferred Shares were issued to IDG-Accel China Growth Fund-A L.P.; and 1,104,570 Series A Preferred Shares were issued to IDG-Accel China Investors L.P..

**Note Purchase:**

91 Limited shall issue the Notes in the Aggregate Principal Amount and each Investor shall purchase, severally but not jointly, the Notes in the following manner:-

- (i) the Note in the amount of US\$3,853,500, which represents 77.07% of the Aggregate Principal Amount, shall be issued to and purchased by IDG-Accel China Growth Fund L.P. at the purchase price of US\$3,853,500;
- (ii) the Note in the amount of US\$787,500, which represents 15.75% of the Aggregate Principal Amount, shall be issued to and purchased by IDG-Accel China Growth Fund-A L.P. at the purchase price of US\$787,500; and
- (iii) the Note in the amount of US\$359,000, which represents 7.18% of the Aggregate Principal Amount, shall be issued to and purchased by IDG Accel China Investors L.P. at the purchase price of US\$359,000.

**Use of Proceeds:**

The proceeds from the sale of the Notes shall be used for further strengthening the core development team, expanding the Mobile Internet Business through acquisition or cooperation with small or medium size local mobile Internet companies and renowned international corporations, strengthening the brand image and general working capital of 91 Limited and the 91 Group Companies.

## PRINCIPAL TERMS OF THE NOTE

Issue date:	The Closing Date
Issuer:	91 Limited
Maturity Date:	Unless earlier converted or accelerated pursuant to the terms of the Note, the outstanding principal amount of the Note shall become due and payable at any time on and after the Maturity Date. 91 Limited may not prepay the Note without the prior written consent of the Holder.
Interest Rate:	The Note shall be (i) interest-free for the period from the Closing Date until the Maturity Date; and (ii) 8% per annum for the period from the date immediately after the Maturity Date and until the time the Note is fully repaid.
Repayment:	All repayment shall be made in US\$ by wire transfer of immediately available fund to a bank account designated by the Holder. 91 Limited waives diligence, demand, presentment, protest or notice of any kind.
Conversion:	Subject to the receipt of the Conversion Notice, the Holder shall be obliged to convert the entire principal amount of the Note into such number of Preferred Shares as is obtained by dividing (i) the entire principal amount of the Note by (ii) the Conversion Price; <i>provided, however, that</i> (a) such conversion right shall be exercised by the Holder on or before the Maturity Date; and (b) the conversion right shall only be exercised to the extent that 91 Limited shall remain a subsidiary of the Company and the number of the Preferred Shares converted by the Holder, after aggregating with all Preferred Shares held and/or to be held by the Investors upon Conversion, shall not represent more than 49% of all issued and outstanding shares of 91 Limited.
Conversion Price:	The conversion price shall be determined by 91 Limited and the Holder (i) with reference to the then fair market value of the shares of 91 Limited; and (ii) in any case, within 5 days from the Exercise Date.

Effect of the Conversion:	Upon completion of the Conversion, the entire outstanding principal amount under the Note shall be deemed to be settled and all rights with respect thereto, except only the right of the Holder to receive the Preferred Shares upon Conversion, shall terminate and the Note shall be cancelled and ceased to have any effect whatsoever.
Transferability:	The Note is not assignable provided that the Holder may assign its rights and obligations to an affiliate of it without consent of 91 Limited
Events of Default:	<p>The occurrence of the following shall constitute an Event of Default under the Note, upon which the outstanding principal amount of the Note and the interest accrued thereon (if any) shall become immediately due and payable:</p> <ul style="list-style-type: none"> <li>(i) 91 Limited failure to pay money when due under the Note, or the material breach of any other provision under the Note or the Note Purchase Agreement; or</li> <li>(ii) any event, occurrence or development that has or that would reasonably be expected to result in a material adverse effect on 91 Limited or its business; or</li> <li>(iii) the filing of a petition by or against 91 Limited under any law relating to bankruptcy, insolvency or other relief for debtors; or appointment of a receiver, trustee, custodian or liquidator of or for all or any part of the assets or property of 91 Limited; or the insolvency of 91 Limited; or the making of a general assignment for the benefit of creditors by 91 Limited.</li> </ul>

## **CLOSING OF THE NOTE PURCHASE AGREEMENT**

On the Closing Date, 91 Limited shall deliver to IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., and IDG Accel China Investors L.P. (i) the Notes in the principal amounts of US\$3,853,500, US\$787,500 and US\$359,000, respectively; and (ii) certified true copy board resolutions of 91 Limited approving

the Note Purchase Agreement and the transaction contemplated thereunder. Each Investor shall pay the purchase price payable on the Closing Date to 91 Limited by wire transfer of immediately available funds to the bank account designated by 91 Limited.

## **EFFECT OF ISSUE OF THE NOTES ON SHAREHOLDING**

Although the Conversion Price has not been determined as at the date hereof and may not be determined on the Closing Date, the Investors and 91 Limited agreed that, upon Conversion, 91 Limited shall remain a subsidiary of the Company and all Preferred Shares held and/or to be held by the Investors shall not represent more than 49% of all issued and outstanding shares of 91 Limited. An announcement relating to the Conversion Price and the exact effect of issue of the Notes on the shareholding structure of 91 Limited shall be published as soon as possible upon the Conversion Price having been determined.

## **REASONS AND BENEFITS FOR ENTERING INTO THE NOTE PURCHASE AGREEMENT**

91 Limited and the 91 Group Companies have just commenced operations in April 2011 and are actively expanding the Mobile Internet Business through merger, acquisition and cooperation. The Directors consider that the issuance of the Notes represents an opportunity to enhance the working capital and strengthen the capital base and financial position of 91 Limited for future investments. The Directors consider that the issue of the Notes to the Investors is an appropriate means of raising additional capital for 91 Limited since it will not have an immediate dilution effect on the shareholding, and the current market circumstances make it difficult to borrow funds from the financial market by 91 Limited. Furthermore, since the Notes are interest-free for the first half year, it will not incur any interest burden for the Group during that period.

Accordingly, the Board (including the independent non-executive Directors) is of the view that the terms of the transactions contemplated under the Note Purchase Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The net proceed from the issue of the Notes, being US\$5,000,000, (equivalent to HK\$39 million) will be used for further strengthening the core development team, expanding the Mobile Internet Business through acquisition or cooperation with small or medium size local mobile Internet companies and renowned international corporations, strengthening the brand image and general working capital of 91 Limited and the 91 Group Companies.

## **FUND RAISING ACTIVITY IN THE PAST TWELVE MONTHS**

On 30 May 2011, 91 Limited, together with the 91 Group Companies, entered into the Share Purchase Agreement with the Investors for the sale of 15,384,000 Series A Preferred Shares for a total consideration of US\$3,999,840 (approximately HK\$31.2 million). The closing of the Share Purchase Transaction took place on 13 August 2011 and 15,384,000 Series A Preferred Shares were issued and sold to the Investors, among which 11,856,450 Series A Preferred Shares, 2,422,980 Series A Preferred Shares and 1,104,570 Series A Preferred Shares were issued to IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., respectively, representing 12.33%, 2.52% and 1.15% of all issued and outstanding shares of 91 Limited.

Save as disclosed, the Group has not conducted any fund raising activity in the past twelve months

## **INFORMATION ON THE GROUP, 91 LIMITED AND THE 91 GROUP COMPANIES**

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

91 Limited is a subsidiary of the Company and principally engaged in investment holding. The 91 Group Companies, which are the subsidiaries of 91 Limited, are engaged in the Mobile Internet Business.

## **INFORMATION ON THE INVESTORS**

IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are limited partnerships and controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.0% by each of Zhou Quan and Patrick J. McGovern. IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are principally engaged in venture capital investment in start-up or growth stage companies with PRC-related businesses.

IDG-Accel China Investors L.P. is a limited partnership controlled by its sole general partner, IDG-Accel China Investor Associates Ltd, which in turn is held as to 100.0% by James W. Breyer. IDG-Accel China Investors L.P. is principally engaged in venture capital investment in start-up or growth stage companies with PRC-related businesses.

## LISTING RULES IMPLICATION

IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P. hold approximately 14.83% shareholding interest in the Company and are deemed to be acting in concert. As substantial shareholders of the Company, the Investors are connected persons of the Company pursuant to the Listing Rules. Accordingly, the transactions contemplated under the Note Purchase Agreement constitute a connected transaction of the Company.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Note Purchase Agreement, both on a stand alone basis and when aggregated with the Share Purchase Transactions pursuant to Rule 14A.25 of the Listing Rules, are less than 5%, the transactions contemplated under the Note Purchase Agreement, both on a stand alone basis and when aggregated with the Share Purchase Transactions, fall within the ambit of Rule 14A.32 of the Listing Rules and are subject to the reporting and announcement requirements and exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Except for Mr. Lin Dongliang, who is a member of the general partners of IDG Technology Venture Investments of the IDG Group, no Directors have a material interest in the transactions contemplated under the Note Purchase Agreement. Accordingly, Mr. Lin Dongliang has abstained from voting on the Board resolutions in relation to the transactions contemplated under the Note Purchase Agreement.

## DEFINITIONS

“91 Group Company(ies)”	Talent Zone, Fuzhou BoYuan Wireless and Fujian Bo Rui
“91 Limited”	91 Limited, a limited liability company incorporated in the Cayman Islands, being a subsidiary of the Company
“Aggregate Principal Amount”	the aggregate principal amount of the Notes, being US\$5,000,000 (approximately HK\$39 million)
“Board”	the board of Directors
“Closing”	the closing of the Note Purchase Agreement
“Closing Date”	the date of the Closing, which shall take place remotely within 5 business days (excluding Saturday, Sunday and public holidays of the PRC and Hong Kong) from the date of the Note Purchase Agreement or such other time and place as 91 Limited and the Investors shall agree



“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Control Documents”	(i) the exclusive technical consultancy and services agreement; (ii) the equity interest pledged agreement; (iii) agreement for the exclusive right to acquire equity interest and assets; and (iv) the equity holders’ voting rights proxy agreement, entered into among NetDragon (Fujian), Fuzhou BoYuan Wireless and/or Fujian Bo Rui, which are contracts cloning the Structure Contracts and pursuant to which, Fuzhou BoYuan Wireless is able to control Fujian Bo Rui and thereby Fujian Bo Rui is regarded as a subsidiary of Fuzhou BoYuan Wireless
“Conversion”	the conversion of the Note(s) into the Preferred Shares pursuant to the Note Purchase Agreement
“Conversion Notice”	the notice to be delivered by the Holder to 91 Limited stating the intention to convert the entire principal amount of the Note into the Preferred Shares
“Conversion Price”	the conversion price for converting the entire principal amount of the Note into the Preferred Shares
“Director(s)”	the director(s) of the Company
“Exercise Date”	the date of the Conversion Notice
“Fujian Bo Rui”	Fujian Bo Rui Websoft Technology Ltd. (福建博瑞網絡科技有限公司), an enterprise established under the laws of the PRC, the equity interests are all held by NetDragon (Fujian) and through the Control Documents, Fuzhou BoYuan Wireless is able to control Fujian Bo Rui and accordingly, Fujian Bo Rui is regarded as a subsidiary of Fuzhou BoYuan Wireless
“Fuzhou BoYuan Wireless”	Fuzhou BoYuan Wireless Websoft Technology Ltd. (福州博遠無綫網絡科技有限公司), a wholly foreign-owned enterprise established under the laws of the PRC and a wholly owned subsidiary of Talent Zone

“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
“IDG-Accel China Growth Fund L.P.”	IDG-Accel China Growth Fund L.P., a limited partnership and ultimately owned as to 35.0% by each of Zhou Quan and Patrick J. McGovern, and being a member of the IDG Group
“IDG-Accel China Growth Fund-A L.P.”	IDG-Accel China Growth Fund-A L.P., a limited partnership and ultimately owned as to 35.0% by each of Zhou Quan and Patrick J. McGovern, and being a member of the IDG Group
“IDG-Accel China Investors L.P.”	IDG-Accel China Investors L.P., a limited partnership and ultimately owned as to 100.0% by James W. Breyer, and being a member of the IDG Group
“IDG Group”	IDG Technology Venture Investments, L.P., IDG Technology Venture Investments III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., which in aggregate hold approximately 14.83% of the Shares and therefore being the Company’s substantial shareholder under the Listing Rules
“Investors/holders”	IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P. and each an “Investor” or a “Holder.”
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	6 months after the date of the Note, which may be extended by mutual agreement between 91 Limited and the Holder
“Mobile Internet Business”	the business of mobile Internet application product developments (including program development and art design) and mobile Internet advertising business operations

“Notes”	the convertible promissory notes issued to the Investors pursuant to the Note Purchase Agreement and each a “Note”
“NetDragon (BVI)”	NetDragon Websoft Inc., a limited liability company incorporated in the British Virgin Islands, being a wholly-owned subsidiary of 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. (福州網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability and through the Structure Contracts, TQ Digital and TQ Online are able to control NetDragon (Fujian) and accordingly, regarded as a subsidiary of the Company
“Ordinary Share(s)”	the ordinary share(s) with a par value of US\$0.0001 per share in the share capital of 91 Limited
“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)
“Preferred Shares”	the preferred shares of 91 Limited
“Series A Preferred Shares”	15,384,000 series A preferred shares of US\$0.0001 each in the share capital of 91 Limited issued pursuant to the Share Purchase Agreement
“Share Purchase Transactions”	the purchases of the Series A Preferred Shares by the Investors pursuant to the Share Purchase Agreement
“Share Purchase Agreement”	the series A preferred shares purchase agreement entered into amongst 91 Limited, the 91 Group Companies and the Investors on 30 May 2011 pursuant to which the Investors agreed to purchase and 91 Limited agreed to issue the Series A Preferred Shares
“Share(s)”	the ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Structure Contracts”	contain contracts entered into among the subsidiaries and affiliates of the Company, particulars of which are set out in the “Structure Contracts” in the latest published annual report of the Company
“substantial shareholders”	having the meaning ascribed thereto in the Listing Rules
“Talent Zone”	Talent Zone Holdings Limited, a limited liability company incorporated in Hong Kong, a wholly owned subsidiary of 91 Limited
“Treasure New”	Treasure New Limited, a company incorporated under the laws of the British Virgin Islands and established for the employee incentive program, details of which can be referred to an announcement of the Company dated 15 August 2011
“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 indirectly wholly and beneficially owned by the Company
“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 indirectly wholly and beneficially owned by the Company
“United States”	United States of America
“US\$”	United States dollars, the lawful currency of the United States of America

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

Hong Kong, 14 September 2011

*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.*