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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)

(I) CONTINUING CONNECTED TRANSACTIONS

SERVER MAINTENANCE CONTRACTS

(II) TERMINATION OF CONTINUING CONNECTED TRANSACTIONS

(I) CONTINUING CONNECTED TRANSACTIONS—SERVER MAINTENANCE CONTRACTS

On 25 October 2012, Fujian Bo Rui, a subsidiary of 91 Limited, entered into the Server Maintenance Contract A with NetDragon (Fujian), a subsidiary of the Company, pursuant to which NetDragon (Fujian) agreed to provide maintenance management services to Fujian Bo Rui on Server A owned by Fujian Bo Rui from 25 October 2012 to 24 October 2015.

On 25 October 2012, Fujian Bo Dong, a subsidiary of 91 Limited, entered into the Server Maintenance Contract B with NetDragon (Fujian), a subsidiary of the Company, pursuant to which NetDragon (Fujian) agreed to provide maintenance management services to Fujian Bo Dong on Server B owned by Fujian Bo Dong from 25 October 2012 to 24 October 2015.

As the IDG Investors are members of the IDG Group which is a substantial shareholder of the Company and are entitled to exercise 10% or more of voting power at a general meeting of 91 Limited, 91 Limited is regarded as a connected person of the Company under Rule 14A.11(5) of the Listing Rules. As 91 Limited is able to control Fujian Bo Rui pursuant to the Control Documents and has 100% equity interest in Fujian Bo Dong, each of Fujian Bo Rui and Fujian Bo Dong is respectively regarded as a subsidiary of 91 Limited and under Rule 14A.11(6) of the Listing Rules, each of Fujian Bo Rui and Fujian Bo Dong is respectively regarded as a connected person of the Company.

Accordingly, each of the Server Maintenance Contracts constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) (as defined in the Listing Rules) in respect of the amount of maintenance service fee under each of the Server Maintenance Contracts (whether on a standalone basis or aggregated with the other under Rule 14A.25 of the Listing Rules) is less than 5%, each of the Server Maintenance Contracts (whether on a standalone basis or aggregated with the other under Rule 14A.25 of the Listing Rules) falls within the ambit of Rule 14A.34 of the Listing Rules and is subject to reporting and announcement requirements but exempt from the independent Shareholders' approval under Chapter 14A of the Listing Rules.

(II) TERMINATION OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company of 28 December 2011 in relation to (a) the Tenancy Agreement I entered into between TQ Digital, as landlord, and Fujian Bo Rui, as tenant, in respect of the leasing of Property I for a period of three years; and (b) the Tenancy Agreement II entered into between TQ Digital, as landlord, and Fuzhou BoYuan Wireless, as tenant, in respect of the leasing of Property II for a period of three years. As Fujian Bo Rui and Fuzhou BoYuan Wireless are connected persons of the Company, the transaction contemplated under the Tenancy Agreement I and Tenancy Agreement II (which were aggregated under Rule 14A.25 of the Listing Rules) constituted continuing connected transactions of the Company.

On 25 October 2012, TQ Digital entered into the Termination Agreement I with Fujian Bo Rui, whereby TQ Digital and Fujian Bo Rui agreed to terminate the Tenancy Agreement I with immediate effect and TQ Digital entered into the Termination Agreement II with Fuzhou BoYuan Wireless whereby TQ Digital and Fuzhou BoYuan Wireless agreed to terminate the Tenancy Agreement II with immediate effect.

(1) CONTINUING CONNECTED TRANSACTIONS

(A) SERVER MAINTENANCE CONTRACT A

Date

25 October 2012

Term:

25 October 2012 to 24 October 2015

Parties

- (a) Fujian Bo Rui, as the owner of Server A and a connected person of the Company;
and
- (b) NetDragon (Fujian), as the service provider.

Major terms

During the contractual period, NetDragon (Fujian) shall provide maintenance management services including day-to-day maintenance, precautionary maintenance, system repair services and all other maintenance services as set out in the Server Maintenance Contract A to Fujian Bo Rui on Server A. The maintenance service fee is determined after arm's length negotiations between the parties and with reference to the market price for similar service and Fujian Bo Rui shall pay to NetDragon (Fujian) a monthly maintenance service fee of RMB200 (equivalent to approximately HK\$246) per each server. Upon receiving monthly formal invoice from NetDragon (Fujian), such consideration will be settled by Fujian Bo Rui through wire transfer.

Any party (the defaulting party) in breach of the Server Maintenance Contract A, shall be liable for damages and losses of the other party. The party who suffers loss shall have the right to terminate the Server Maintenance Contract A in writing if the defaulting party, in the event of the breach of the Server Maintenance Contract A, has not corrected such breach within 30 days. The Server Maintenance Contract A shall be automatically terminated upon the arrival date of such notice to the defaulting party, and the defaulting party shall remain liable for the damages and losses of the other party under these circumstances.

The entering into, implementation and resolution to interpretation and dispute of the Server Maintenance Contract A shall be governed under the laws of the PRC.

Others rights and obligations

1. Fujian Bo Rui is responsible to keep confidential of commercial information including technical and quotation information of NetDragon (Fujian), and shall not disclose such confidential information to third party without authorised permission from NetDragon (Fujian).
2. NetDragon (Fujian) is responsible to keep confidential of commercial information including clientele and business flow information of Fujian Bo Rui, and shall not disclose such confidential information to third party without authorised permission from Fujian Bo Rui.

(B) SERVER MAINTENANCE CONTRACT B

Date

25 October 2012

Term:

25 October 2012 to 24 October 2015

Parties

- (a) Fujian Bo Dong, as the owner of Server B and a connected person of the Company; and
- (b) NetDragon (Fujian), as the service provider.

Major terms

During the contractual period, NetDragon (Fujian) shall provide maintenance management services including day-to-day maintenance, precautionary maintenance, system repair services and all other maintenance services as set out in the Server Maintenance Contract B to Fujian Bo Dong on Server B. The maintenance service fee is determined after arm's length negotiations between the parties and with reference to the market price for similar service and Fujian Bo Dong shall pay to NetDragon (Fujian) a monthly maintenance service fee of RMB200 (equivalent to approximately HK\$246) per each server. Upon receiving monthly formal invoice from NetDragon (Fujian), such consideration will be settled by Fujian Bo Dong through wire transfer.

Any party (the defaulting party) in breach of the Server Maintenance Contract B, shall be liable for damages and losses of the other party. The party who suffers loss shall have the right to terminate the Server Maintenance Contract B in writing if the defaulting party, in the event of the breach of the Server Maintenance Contract B, has not corrected such breach within 30 days. The Server Maintenance Contract B shall be automatically terminated upon the arrival date of such notice to the defaulting party, and the defaulting party shall remain liable for the damages and losses of the other party under these circumstances.

The entering into, implementation and resolution to interpretation and dispute of the Server Maintenance Contract B shall be governed under the laws of the PRC.

Others rights and obligations

1. Fujian Bo Dong is responsible to keep confidential of commercial information including technical and quotation information of NetDragon (Fujian), and shall not disclose such confidential information to third party without authorised permission from NetDragon (Fujian).
2. NetDragon (Fujian) is responsible to keep confidential of commercial information including clientele and business flow information of Fujian Bo Dong, and shall not disclose such confidential information to third party without authorised permission from Fujian Bo Dong.

AGGREGATE ANNUAL CAPS OF THE SERVER MAINTENANCE CONTRACTS

Based on the terms of the Server Maintenance Contract A, the Aggregate Annual Cap for the periods from 25 October 2012 to 24 October 2013, from 25 October 2013 to 24 October 2014 and from 25 October 2014 to 24 October 2015 will not exceed RMB1,540,690 (equivalent to approximately HK\$1,892,902), RMB3,376,160 (equivalent to approximately HK\$4,147,973) and RMB6,008,140 (equivalent to approximately HK\$7,381,642), respectively.

Based on the terms of the Server Maintenance Contract B, the Aggregate Annual Cap for the Server Maintenance Contract B for the periods from 25 October 2012 to 24 October 2013, from 25 October 2013 to 24 October 2014 and from 25 October 2014 to 24 October 2015 will not exceed RMB385,910 (equivalent to approximately HK\$474,132), RMB813,040 (equivalent to approximately HK\$998,907) and RMB1,446,860 (equivalent to approximately HK\$1,777,622), respectively.

REASONS FOR AND BENEFITS FOR ENTERING INTO THE SERVER MAINTENANCE CONTRACTS

Currently, the Group is principally engaged in online game development and Mobile Internet Business, including game design, programming and graphics and online game operation. The Directors are of the view that the maintenance services provided by NetDragon (Fujian) are (i) necessary for continuing the operations and growth of Fujian Bo Dong, Fujian Bo Rui and the Group as it ensures the smooth operation and upkeep of computer systems on which the Mobile Internet Business products are being run; and (ii) would allow support to facilitate future expansion of the business of Fujian Bo Dong, Fujian Bo Rui and the Group and are therefore beneficial to the Group (including 91 Limited and its subsidiaries).

Accordingly, the Board (including the independent non-executive Directors) is of the view that the terms of the Server Maintenance Contracts are fair and reasonable and in the interests of the Shareholders as a whole.

IMPACT OF THE CONTINUING CONNECTED TRANSACTION

As at the date of this announcement, the Group has a total of approximately 2,990 servers and the Directors estimate Server A and Server B in aggregate shall account for approximately 505 servers. Therefore, according to the audited financial statements of the Group, the Server A and Server B in aggregate accounted for approximately RMB1,119,590 (equivalent to approximately HK\$1,375,536) under the net book value of the Group for the year ended 31 December 2011.

According to the financial statements of the Group, the Group has recorded a net profit before taxation and extraordinary items of approximately RMB10,444,000 (equivalent to approximately HK\$12,831,570) and RMB34,011,000 and a net profit after taxation and extraordinary items of approximately RMB5,550,000 (equivalent to approximately HK\$6,818,768) and RMB22,842,000 (equivalent to approximately HK\$28,063,838) attributable to the Server A and Server B in aggregate for each of the two years ended 31 December 2010 and 31 December 2011, respectively.

BACKGROUND INFORMATION ON THE GROUP, 91 LIMITED, FUJIAN BO RUI, FUJIAN BO DONG AND NETDRAGON (FUJIAN)

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

91 Limited is an indirect non wholly owned subsidiary of the Company and principally engaged in investment holding. Pursuant to the Control Documents, Fujian Bo Rui is regarded as a subsidiary of 91 Limited and it is principally engaged in the Mobile Internet Business. Fujian Bo Dong is regarded as a subsidiary of 91 Limited and it is principally engaged in design, production, dissemination of all kinds of advertising, corporate image planning and computer graphic production, etc.

NetDragon (Fujian) is a company established in the PRC with limited liability and through the Structure Contracts, NetDragon (Fujian) is regarded as a subsidiary of the Company.

LISTING RULES IMPLICATIONS

As the IDG Investors are members of the IDG Group which is a substantial shareholder of the Company and are entitled to exercise 10% or more of the voting power at a general meeting of 91 Limited, 91 Limited is regarded as a connected person of the Company under Rule 14A.11(5) of the Listing Rules. As 91 Limited is able to control Fujian Bo Rui pursuant to the Control Documents and has 100% equity interest in Fujian Bo Dong, each of Fujian Bo Rui and Fujian Bo Dong is respectively regarded as a subsidiary of 91 Limited and under Rule 14A.11(6) of the Listing Rules, each of Fujian Bo Rui and Fujian Bo Dong is respectively regarded as a connected person of the Company.

Accordingly, each of the Server Maintenance Contracts constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (other than the profits ratio) (as defined in the Listing Rules) in respect of the amount of maintenance service fee under each of the Server Maintenance Contracts (whether on a standalone basis or aggregated with the other under Rule 14A.25 of the Listing Rules) is less than 5%, each of the Server Maintenance Contracts (whether on a standalone basis or aggregated with the other under Rule 14A.25 of the Listing Rules) falls within the ambit of Rule 14A.34 of the Listing Rules and is subject to reporting and announcement requirements but exempt from the independent Shareholders' approval under Chapter 14A of the Listing Rules.

Except for Liu Dejian and Chen Hongzhan, who are the executive Directors and directors of 91 Limited and Lin Dongliang, who is a general partner of a member of the IDG Group and a Director nominated by the IDG Group, no Director has material interest in the Server Maintenance Contracts. Accordingly, Liu Dejian, Chen Hongzhan and Lin Dongliang have abstained from voting on the Board resolutions in relation to the Server Maintenance Contracts.

(II) TERMINATION OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 28 December 2011 in relation to the continuing connected transactions.

On 28 December 2011, (a) TQ Digital, as landlord, entered into the Tenancy Agreement I with Fujian Bo Rui, as tenant, for renting Property I for a term of three years from 1 January 2012 to 31 December 2014 (both days inclusive); and (b) TQ Digital, as landlord, entered into the Tenancy Agreement II with Fuzhou BoYuan Wireless, as tenant, for renting Property II for a term of three years from 1 January 2012 to 31 December 2014 (both days inclusive). As Fujian Bo Rui and Fuzhou BoYuan Wireless are connected persons of the Company, the transactions contemplated under the Tenancy Agreement I and Tenancy Agreement II (which were aggregated under Rule 14A.25 of the Listing Rules) constituted continuing connected transactions of the Company, which was subject to the reporting, announcement and annual review requirements under chapter 14A of the Listing Rules and were exempt from the independent Shareholders' approval requirements.

(A) Termination Agreement I

On 25 October 2012, TQ Digital entered into the Termination Agreement I with Fujian Bo Rui, whereby TQ Digital and Fujian Bo Rui agreed to terminate the Tenancy Agreement I with immediate effect. Pursuant to the terms of the Termination Agreement I, all parties further agreed and acknowledged that (i) the Tenancy Agreement I shall cease to have binding effect on any party and no party shall have any right to claim against the other party; and (ii) Fujian Bo Rui has already paid all the outstanding rent to TQ Digital and TQ Digital has returned all the deposits (in the amount of RMB500,000 (equivalent to approximately HK\$614,303)) to Fujian Bo Rui.

(B) Termination Agreement II

On 25 October 2012, TQ Digital entered into the Termination Agreement II with Fuzhou BoYuan Wireless, whereby TQ Digital and Fuzhou BoYuan Wireless agreed to terminate the Tenancy Agreement II with immediate effect. Pursuant to the terms of the Termination Agreement II, all parties further agreed and acknowledged that (i) the Tenancy Agreement II shall cease to have binding effect on any party and no party shall have any right to claim against the other party; and (ii) Fuzhou BoYuan Wireless had already paid all the outstanding rent to TQ Digital and TQ Digital had returned all the deposits (in the amount of RMB200,000 (equivalent to approximately HK\$245,721)) to Fuzhou BoYuan Wireless.

Neither Fujian Bo Rui nor Fuzhou BoYuan Wireless is required to pay for any other amount to TQ Digital as a result of the early termination of the Tenancy Agreement I and Tenancy Agreement II.

As the Property I and Property II cannot accommodate the continue expansion of the business operations of Fujian Bo Rui and Fuzhou BoYuan Wireless, Fujian Bo Rui and Fuzhou BoYuan Wireless are required to relocate to new premises with larger gross floor area. Fujian Bo Rui and Fuzhou BoYuan Wireless will move to new premises with a total gross floor area of approximately 5,600 sq.m. located in Fuzhou. To the best of knowledge, information and belief and having made all reasonable enquiries, the landlord of such new premises is an Independent Third Party.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings as set out below:

“91 Limited”	91 Limited, a limited liability company incorporated in the Cayman Islands, being an indirect non wholly owned subsidiary and a connected person of the Company
“Aggregate Annual Cap”	the aggregate annual cap for the transactions contemplated under the Server Maintenance Contracts
“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
“Control Documents”	(i) the cooperation framework 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 between 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
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the director(s) of the Company

“Fujian Bo Dong”	Fujian Bo Dong Cultural and Communications Ltd. (福建博動文化傳播有限公司), an enterprise established under the laws of the PRC, the equity interests are held by Fuzhou BoYuan Wireless and accordingly, Fujian Bo Dong is regarded as a subsidiary of Fuzhou BoYuan Wireless
“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 interest 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 an indirect wholly owned subsidiary of 91 Limited
“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
“IDG Group”	IDG Technology Venture Investments, L.P. and the IDG Investors, which in aggregate holds approximately 15.22% shareholding interest in the Company and therefore being the Company’s substantial shareholder under the Listing Rules
“IDG Investors”	IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P.
“Independent Third Party(ies)”	third party(ies) which are independent and not connected with (within the meaning of the Listing Rules) any of the Directors, chief executives, connected persons of the Company or any of its subsidiaries and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Mobile Internet Business”	the business of mobile Internet application product developments (including program development and art design) and mobile Internet advertising business operations
“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, it is regarded as a subsidiary of the Company
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this announcement, exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Property I”	premises with a total gross floor area of approximately 1,087.5 sq.m. consisting of office premises and which is situated at 中國福建省福州市鼓樓區溫泉支路56號東門大樓的2樓及3樓的部份辦公室 (Level 2 and portion of Level 3, Dongmen Building, No. 56 Hot Spring Branch Road, Gulou District, Fuzhou City, Fujian Province, the PRC) with a 房權證 (real estate ownership certificate): 榕晉J字第W1527 (Rong Jin J Zhi Di W1527)
“Property II”	premises with a total gross floor area of approximately 725 sq.m. consisting of office premises and which is situated at 中國福建省福州市鼓樓區溫泉支路56號東門大樓的3樓的部份辦公室 (Portion of Level 3, Dongmen Building, No. 56 Hot Spring Branch Road, Gulou District, Fuzhou City, Fujian Province, the PRC) with a 房權證 (real estate ownership certificate): 榕晉J字第W1527 (Rong Jin J Zhi Di W1527)
“RMB”	Renminbi, the lawful currency of the PRC
“Server A”	certain servers under maintenance management service pursuant to Server Maintenance Contract A

“Server B”	certain servers under maintenance management service pursuant to Server Maintenance Contract B
“Servers”	collectively, Server A and Server B
“Server Maintenance Contract A”	the contract entered into between Fujian Bo Rui and NetDragon (Fujian) dated 25 October 2012 in respect of the provision of maintenance and management services to Server A
“Server Maintenance Contract B”	the contract entered into between Fujian Bo Dong and NetDragon (Fujian) dated 25 October 2012 in respect of the provision of maintenance and management services to Server B
“Server Maintenance Contracts”	collectively, Server Maintenance Contract A and Server Maintenance Contract B
“Share(s)”	the ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“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 shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“sq.m.”	square metres
“Tenancy Agreement I”	a tenancy agreement dated 28 December 2011 entered into between TQ digital and Fujian Bo Rui in relation to Property I
“Tenancy Agreement II”	a tenancy agreement dated 28 December 2011 entered into between TQ Digital and Fuzhou BoYuan Wireless in relation to Property II
“Termination Agreement I”	an agreement dated 25 October 2012 entered into between Fujian Bo Rui and TQ Digital in relation to the early termination of the Tenancy Agreement I

“Termination Agreement II”	an agreement dated 25 October 2012 entered into between Fuzhou BoYuan Wireless and TQ Digital in relation to the early termination of the 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 Ditigal 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)
“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 HK\$ is calculated at the conversion rate of HK\$1.00 to RMB0.81393. 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, 25 October 2012

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.