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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 TRANSACTIONS

Reference is made to the announcement of the Company dated 31 December 2009 and the 2011 annual report of the Company regarding the Existing Service Agreement A and the Existing Service Agreement B, respectively.

The Board announces that on 28 December 2012:

- I. NetDragon (Fujian) entered into the New Service Agreement A with Fuzhou Tianliang to renew the Existing Service Agreement A, 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 2013 to 31 December 2015; and
- II. Fujian Bo Rui entered into the New Service Agreement B with Fuzhou Tianliang to renew the Existing Service Agreement B, pursuant to which Fuzhou Tianliang agreed to provide after-sales service to Fujian Bo Rui for a period from 1 January 2013 to 31 December 2015.

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, Miss Lin and Fuzhou Tianliang are deemed to be connected persons to the Company under the Listing Rules. Accordingly, the New Service Agreement A and the New Service Agreement B constitute continuing connected transactions under the Listing Rules.

Given that the applicable percentage ratios regarding the Aggregate Annual Caps under the New Service Agreement A and the New Service Agreement B (which are aggregated under Rule 14A.25 of the Listing Rules) fall within the threshold prescribed under Rule 14A.34 of the Listing Rules, the Service Agreements are only subject to the reporting, announcement and annual review requirements under rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

Reference is made to the announcement of the Company dated 31 December 2009 and the 2011 annual report of the Company regarding the Existing Service Agreement A and the Existing Service Agreement B, respectively.

The Existing Service Agreement A was 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.

The Existing Service Agreement B was entered into between Fujian Bo Rui and Fuzhou Tianliang on 5 September 2011 and 1 January 2012, respectively, pursuant to which and in order to segregate the obligations between TQ Digital, NetDragon (Fujian) and Fujian Bo Rui upon the entering into of the Control Documents, Fuzhou Tianliang agreed to provide after-sales services to Fujian Bo Rui for a period from 5 September 2011 to 31 December 2012. Notwithstanding the entering into of the Existing Service Agreement B, the total expected fee and the annual cap under the Existing Service Agreement A remain unchanged.

Since the Existing Service Agreement A and the Existing Service Agreement B will expire on 31 December 2012, NetDragon (Fujian) and Fujian Bo Rui entered into the New Service Agreement A and the New Service Agreement B, respectively, to renew the Existing Service Agreement A and the Existing Service Agreement B.

I. NEW SERVICE AGREEMENT A

Pursuant to the New Service Agreement A, 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 2013 to 31 December 2015.

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

- Date: 28 December 2012
- 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.
- Term: For a period of three years commencing from 1 January 2013 to 31 December 2015 (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 A are no less favourable to NetDragon (Fujian) than terms available from Independent Third Parties.

II. NEW SERVICE AGREEMENT B

Pursuant to the New Service Agreement B, Fuzhou Tianliang agreed to provide after-sales service to Fujian Bo Rui for a period from 1 January 2013 to 31 December 2015.

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

- Date: 28 December 2012
- Parties: (i) Fuzhou Tianliang, as the service provider
(ii) Fujian Bo Rui, as the service consumer
- Nature of transaction: The provision of after-sales service.
- Term: For a period of three years commencing from 1 January 2013 to 31 December 2015 (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 Fujian Bo Rui. 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 Fujian Bo Rui to Fuzhou Tianliang under the New Service Agreement B are no less favourable to Fujian Bo Rui than terms available from Independent Third Parties.

Aggregate Annual Caps for each of the three financial years ending 31 December 2015

The Directors estimate that the Aggregate Annual Caps of the Service Agreements for each of the three years ending 31 December 2015 are as follows:

	Year ending 31 December 2013 (RMB)	Year ending 31 December 2014 (RMB)	Year ending 31 December 2015 (RMB)
NetDragon (Fujian) under the New Service Agreement A			
Technical maintenance fees	3,977,000	4,326,000	4,569,000
After-sales service charges	<u>18,560,000</u>	<u>20,187,000</u>	<u>21,322,000</u>
	22,537,000	24,513,000	25,891,000
Fujian Bo Rui under the New Service Agreement B			
After-sales service charges	<u>6,092,000</u>	<u>8,744,000</u>	<u>10,000,000</u>
Total:	<u><u>28,629,000</u></u>	<u><u>33,257,000</u></u>	<u><u>35,891,000</u></u>

The Aggregate Annual Caps have been determined based on:

- (i) historical monthly incoming call volumes, monthly online reported volumes and monthly hardware account reported volumes of NetDragon (Fujian) and Fujian Bo Rui;
- (ii) internal estimated monthly incoming call volumes, monthly online reported volumes and monthly hardware account reported volumes of NetDragon (Fujian) and Fujian Bo Rui for each of the three years ending 31 December 2015; and
- (iii) the estimated services fees payable to Fuzhou Tianliang for the three years ending 31 December 2015.

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

Reasons and benefits for renewing the Service Agreements

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 operations of NetDragon (Fujian) and Fujian Bo Rui.

The Directors, including all the three independent non-executive Directors, consider that the Service Agreements were 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, NetDragon (Fujian), 91 Limited, Fujian Bo Rui and Fuzhou Tianliang

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

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

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.

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, Miss Lin and Fuzhou Tianliang are deemed to be connected persons to the Company under the Listing Rules. Accordingly, the New Service Agreement A and the New Service Agreement B constitute continuing connected transactions under the Listing Rules.

Given that the applicable percentage ratios regarding the Aggregate Annual Caps under the New Service Agreement A and the New Service Agreement B (which are aggregated under Rule 14A.25 of the Listing Rules) fall within the threshold prescribed under Rule 14A.34 of the Listing Rules, the Service Agreements are only subject to the reporting, announcement and annual review requirements under rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Liu Dejian, Liu Luyuan and Zheng Hui are the Directors and Controlling Shareholders whereas Miss Lin confirmed that she is acting under the instructions of the Controlling Shareholders regarding her interests in Fuzhou Tianliang. Accordingly, Liu Dejian, Liu Luyuan and Zheng Hui have abstained from voting on the Board resolutions in relation to the renewing of the Service Agreements.

DEFINITIONS

“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
“after-sale service”	the after-sales service which 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.
“Aggregate Annual Cap(s)”	the aggregate annual cap(s) for the transactions contemplated under the Service Agreements
“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
“computer system repair and maintenance service”	the computer system repair and maintenance service which mainly includes the routine system checking and maintenance and technical diagnosis and repair of system hardware, operating systems, database and application software which ensures the smooth operation and upkeep of the computer systems on which the online games software are being run
“connected person”	has the meaning ascribed to it under the Listing Rules
“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

“Controlling Shareholders”	NetDragon (Fujian)’s controlling shareholders (having the meaning ascribed thereto in the Listing Rules), being DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Liu Dejian, Liu Luyuan, Zheng Hui, Eagle World International Inc. and Flowson Company Limited
“Director(s)”	the director(s) of the Company
“Existing Service Agreement A”	the 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, details of which are set forth in the announcement of the Company dated 31 December 2009
“Existing Service Agreement B”	the separate and supplementary agreement entered into between Fujian Bo Rui and Fuzhou Tianliang on 5 September 2011 and 1 January 2012, respectively, pursuant to which and in order to segregate the obligations between TQ Digital, NetDragon (Fujian) and Fujian Bo Rui upon the entering into of the Control Documents, Fuzhou Tianliang agreed to provide after-sales services to Fujian Bo Rui for a period from 5 September 2011 to 31 December 2012, details of which are set forth on pages 78 and 79 of the 2011 annual report of the Company
“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)
“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

“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“Miss Lin”	林航 (Lin Hang), being the sole shareholder of Fuzhou Tianliang
“Mobile Internet Business”	the business of mobile Internet application product developments (including program development and art design) and mobile Internet advertising business operations
“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 through the Structure Contracts, it is regarded as a subsidiary of the Company

“New Service Agreement A”	the new service agreement dated 28 December 2012 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 2013 to 31 December 2015
“New Service Agreement B”	the new service agreement dated 28 December 2012 entered into between Fujian Bo Rui and Fuzhou Tianliang pursuant to which Fuzhou Tianliang agreed to provide after-sales service to Fujian Bo Rui for a period from 1 January 2013 to 31 December 2015
“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 Agreements”	the New Service Agreement A and the New Service Agreement 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

“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 A and the New Service Agreement B
“%”	per cent

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

Hong Kong, 28 December 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.