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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

SUBSCRIPTION OF THE ORDINARY SHARES IN 91 LIMITED BY NETDRAGON (BVI)

On 9 January 2013, NetDragon (BVI), a direct wholly-owned subsidiary of the Company, entered into the Ordinary Share Subscription Agreement with 91 Limited, an indirect non-wholly owned subsidiary of the Company, pursuant to which NetDragon (BVI) shall subscribe for, and 91 Limited shall allot and issue, 13,131,278 Ordinary Shares for a total consideration of US\$25,131,201.

All the conditions to Completion have been fulfilled or waived (as the case may be) by NetDragon (BVI) and 91 Limited, and the Completion has taken place on the same date of the Ordinary Share Subscription Agreement.

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 a connected person of the Company under Rule 14A.11(5) of the Listing Rules. Accordingly, the Ordinary Share Subscription Transaction constitutes a connected transaction of the Company. As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Ordinary Share Subscription Transaction, when aggregated with those of the NetDragon (BVI) Subscription Transaction, pursuant to Rule 14A.25 of the Listing Rules, are less than 5%, the Ordinary Share Subscription Transaction, when aggregated with the NetDragon (BVI) Subscription Transaction, falls 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 9 January 2013, NetDragon (BVI), a direct wholly-owned subsidiary of the Company, entered into the Ordinary Share Subscription Agreement with 91 Limited, an indirect non-wholly owned subsidiary of the Company, pursuant to which NetDragon (BVI) shall subscribe for, and 91 Limited shall allot and issue, 13,131,278 Ordinary Shares for a total consideration of US\$25,131,201.

The Ordinary Share Subscription Agreement

Date: 9 January 2013

Parties: (a) NetDragon (BVI), as the subscriber of the Ordinary Shares; and

(b) 91 Limited, as the issuer of the Ordinary Shares and a connected person of the Company

Capital structure: Immediately prior to the signing of the Ordinary Share Subscription Agreement, 91 Limited has an authorised share capital of US\$20,500 divided into (i) 164,000,000 Ordinary Shares, 79,128,034 of which have been issued to and held by NetDragon (BVI), BOCOM Trustee, SMP Trustees, Cantrust and Euro Victory, and 1,637,966 of which have been issued to and held by certain participants of the 91 Share Award Scheme; (ii) 15,500,000 Series A Preferred Shares, 15,384,000 of which have been issued to the Series A Investors; and (iii) 25,500,000 Series B Preferred Shares, 24,037,500 of which have been issued to the Series B Investors, the IDG Investors, NetDragon (BVI) and Sino Coast.

Subscription: NetDragon (BVI) shall subscribe for, and 91 Limited shall issue, 13,131,278 Ordinary Shares for a total consideration of US\$25,131,201 (approximately HK\$194.8 million)

The consideration of the subscription of 13,131,278 Ordinary Shares was determined among the parties, taking into account factors including (i) rights attached to the ordinary shares; (ii) performance of the Mobile Internet Business and (iii) the prospects of the Mobile Internet Business conducted and to be conducted by 91 Limited and 91 Group Companies.

Completion

All the conditions to Completion have been fulfilled or waived (as the case may be) by NetDragon (BVI) and 91 Limited, and the Completion has taken place on the same date of the Ordinary Share Subscription Agreement.

Prior to the entering into of the Ordinary Share Subscription Agreement, NetDragon (BVI) awarded the Awarded Shares to certain employees of the Group by transferring the Awarded Shares to Euro Victory. After the transfer of the Awarded Shares, NetDragon (BVI) held 65,036,500 Ordinary Shares, representing approximately 54.11% in the then issued share capital of 91 Limited. Upon Completion and as at 9 January 2013, NetDragon (BVI) held 78,167,778 Ordinary Shares and 2,403,750 Series B Preferred Shares in 91 Limited, representing approximately 58.63% and 1.80% of the enlarged issued share capital of 91 Limited.

Principal terms of the Ordinary Shares issued to NetDragon (BVI)

- Issue date: the Completion Date
- Issue Price: US\$1.9138427 per Ordinary Share
- Dividends: The Series B Preferred Shares rank in priority to receive non-accumulative dividends declared by 91 Limited in preference and priority to the Series A Preferred Shares, which rank in priority to receive non-accumulative dividends in preference and priority to any Ordinary Shares, in the capital of 91 Limited
- Liquidation Distribution: (a) In the event of any liquidation event, the holders of the Series B Preferred Shares shall be entitled to receive, prior and in preference to any distribution of any of the proceeds or assets of 91 Limited, to the holders of the Series A Preferred Shares, the Ordinary Shares or any of the class of shares of 91 Limited, an amount per share for each Series B Preferred Share held by them equal to the sum of the Series B Liquidation Preference and all declared but unpaid dividends (if any) on each such Series B Preferred Share; and

(b) the holders of the Series A Preferred Shares shall be entitled to receive, prior and in preference to any distribution of any of the proceeds or assets of 91 Limited to the holders of the Ordinary Shares or any of the class of shares of 91 Limited, an amount per share for each Series A Preferred Share held by them equal to the sum of the Series A Liquidation Preference and all declared but unpaid dividends (if any) on each Series A Preferred Share.

Voting: Except as otherwise expressly provided in the Second Amended Memorandum and Articles of Association or as required by law, all the holders of the Ordinary Shares, the Series A Preferred Shares and the Series B Preferred Shares are entitled to receive notice of and to attend general meetings of 91 Limited and vote on all matters regarding 91 Limited.

Reasons and benefits for entering into the Ordinary Share Subscription Agreement

The reason for entering into the Ordinary Share Subscription Agreement is to increase NetDragon (BVI) shareholding percentage in 91 Limited. At the same time, the capital provided by NetDragon (BVI) can strengthen the capital base of 91 Limited and 91 Group Companies for developing new applications and enhancing new contents and services.

Accordingly, the Board (including the independent non-executive Directors) is of the view that the terms of the transactions contemplated under the Ordinary Share Subscription Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The net proceeds from the Ordinary Share Subscription Transaction will be used for strengthening general working capital of 91 Limited and its subsidiaries.

Fund raising activities of 91 Limited in the past twelve months

On 17 February 2012, 91 Limited issued 2,403,750 Series B Preferred Shares to NetDragon (BVI) in the consideration of US\$3,000,000, details of which are set forth in the announcements of the Company dated 10 February 2012 and 20 February 2012.

On 12 October 2012, 91 Limited issued 1,602,500 Series B Preferred Shares to Sino Coast in the consideration of US\$2,000,000, details of which are set forth in the announcements of the Company dated 8 October 2012 and 19 October 2012.

Save as disclosed, 91 Limited has not conducted any other fund raising activity in the past twelve months.

Information on the Group, NetDragon (BVI), 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.

NetDragon (BVI) is a direct wholly-owned subsidiary of the Company and principally engaged in investment holding.

91 Limited is an indirect non-wholly owned subsidiary of the Company and principally engaged in investment holding. The principal operating subsidiaries include, among others, Fuzhou BoYuan Wireless Fujian Bo Dong and Fujian Bo Rui.

Fuzhou BoYuan Wireless is a wholly-owned subsidiary of Talent Zone, which, in turn, is a subsidiary of the Company and principally engaged in provision of consulting services to Fujian Bo Rui through the Control Documents.

Fujian Bo Dong is a subsidiary of Fuzhou BoYuan Wireless and it is principally engaged in design, production, dissemination of all kinds of advertising, corporate image planning and computer graphic production.

Fujian Bo Rui is 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. Fujian Bo Rui is principally engaged in the Mobile Internet Business, including the design and development of mobile Internet applications.

Other 91 Group Companies are also mainly engaged in activities relating to the Mobile Internet Business in the PRC, including developing and operating the mobile Internet applications and mobile Internet advertising business.

Listing Rules implication relating to the Ordinary Share Subscription Transaction

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 an general meeting of 91 Limited, 91 Limited is a connected person of the Company under Rule 14A.11(5) of the Listing Rules. Accordingly, the Ordinary Share Subscription Transaction constitutes a connected transaction of the Company. As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Ordinary Share Subscription Transaction, when aggregated with those of the NetDragon (BVI) Subscription Transaction pursuant to Rule 14A.25 of the Listing Rules, are less than 5%, the Ordinary Share Subscription Transaction, when aggregated with NetDragon (BVI) Subscription Transaction, falls 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 Liu Dejian and Chen Hongzhan, who are the executive Directors and directors of 91 Limited and Lin Dongliang, who is a member of the general partners of IDG Technology Venture Investments of the IDG Group, no Director has material interest in the Ordinary Share Subscription Transaction. Accordingly, Liu Dejian, Chen Hongzhan and Lin Dongliang have abstained from voting on the Board resolutions in relation to the Ordinary Share Subscription Transaction.

FINANCIAL EFFECTS OF THE ORDINARY SHARE SUBSCRIPTION TRANSACTION ON 91 LIMITED AND THE FINANCIAL INFORMATION OF 91 LIMITED AND THE 91 GROUP COMPANIES

As a result of the completion of the Ordinary Share Subscription Transaction, 91 Limited is expected to record a gain on the deemed disposal and to recognize a gain amounting to approximately US\$24,989,000 (approximately HK\$193,697,000) after deducting the professional fees and all related expenses, which gain is subject to adjustment and review by auditors of the Company.

Subject to adjustment and review by auditors, it is estimated that, the unaudited total net asset value of 91 Limited and 91 Group Companies was approximately RMB782,000 (equivalent to approximately HK\$965,000) as at 31 December 2012. The unaudited net profit before and after taxation attributable to 91 Limited and 91 Group Companies for the year ended 31 December 2012 were approximately RMB26,482,000 and approximately RMB7,877,000, respectively (equivalent to approximately HK\$32,680,000 and approximately HK\$9,721,000, respectively).

91 Limited and 91 Group Companies will continue to be the subsidiaries of the Company following the Ordinary Share Subscription Transaction.

DEFINITIONS

“91 Group Companies”	shall include, as at the date hereof, (i) Talent Zone; (ii) Fujian Bo Rui; (iii) Fuzhou BoYuan Wireless; (iv) 江蘇博望網絡科技有限公司 (Jiangsu Bowang Websoft Technology Ltd.); (v) Prestige Plus Holdings Limited (增譽控股有限公司); (vi) Alpha Great International Limited (強領國際有限公司); (vii) Keen City Holdings Limited (鷹威控股有限公司); (viii) BoYuan (Hong Kong) Wireless Websoft Technology Ltd. (博遠(香港)無線網絡科技有限公司); (ix) I-Wave Wireless Limited (愛威無線有限公司); and (x) Fujian Bo Dong and such other entities deemed to be subsidiaries or associated companies of the Company, each of which is or is regarded as a subsidiary of the Company
“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
“91 Share Award Scheme”	the share award scheme of 91 Limited approved and adopted by the board of directors of 91 Limited on 28 December 2011, a summary of the principal terms of which is set out in the announcement dated 28 December 2011;
“Awarded Shares”	6,114,500 Ordinary Shares
“Board”	the board of Directors
“BOCOM Trustee”	Bank of Communications Trustee Limited, the trustee of the 91 Share Award Scheme
“Cantrust”	Cantrust (Far East) Limited, the trustee of The Carryon Employee Benefit Trust, the beneficiaries of which are employees of the Group
“Completion”	the completion of the Ordinary Share Subscription Transaction

“Completion Date”	9 January 2013
“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) exclusive technical consultancy and service agreement; (iii) the equity interest pledged agreement; (iv) agreement for the exclusive right to acquire equity interest and assets; and (v) 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 will be able to control Fujian Bo Rui and thereby Fujian Bo Rui will be regarded as a subsidiary of Fuzhou BoYuan Wireless
“Director(s)”	the director(s) of the Company
“Euro Victory”	Euro Victory Limited, a company wholly-owned by SMP Trustees (NZ) Limited, the trustee of The Greenford Trust. The beneficiaries of The Greenford Trust are the employees of the Group (excluding Directors)
“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 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 Ho Chi Sing
“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 Ho Chi Sing
“IDG-Accel China Investors L.P.”	IDG-Accel China Investors L.P., a limited partnership and ultimately owned as to 100% by Ho Chi Sing
“IDG Investors”	IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., and IDG-Accel China Investors L.P.
“IDG Group”	IDG Technology Venture Investments, L.P. and the IDG Investors, which in aggregate hold 15.22% shareholding interest in the Company and therefore being the substantial shareholder of the Company under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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 limited liability company incorporated in the British Virgin Islands, being a wholly-owned subsidiary of the Company
“NetDragon (BVI) Subscription Transaction”	the subscription of 2,403,750 Series B Preferred Shares by NetDragon (BVI) pursuant to a subscription agreement dated 10 February 2012 entered into between 91 Limited and NetDragon (BVI), further details of which are set forth in the announcements of the Company dated 10 February 2012 and 20 February 2012
“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
“Ordinary Share Subscription Agreement”	the subscription agreement in respect of 13,131,278 Ordinary Shares dated 9 January 2013 entered into between NetDragon (BVI) and 91 Limited
“Ordinary Share Subscription Transaction”	the transactions contemplated under the Ordinary Share Subscription Agreement
“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 Share(s)”	the Series A Preferred Share(s) and/or the Series B Preferred Share(s), as the context may require
“RMB”	Renminbi, the lawful currency of the PRC

“Second Amended Memorandum and Articles of Association”	the amended and restated articles of association of 91 Limited adopted on 9 December 2011
“Series A Investors”	IDG Investors and Stonewell Resources Limited
“Series A Preferred Shares”	series A preferred shares in the capital of 91 Limited
“Series A Liquidation Preference”	US\$0.26 per Series A Preferred Shares, subject to adjustment from time to time, plus 5% per annum cumulative rate of return
“Series B Investors”	Vertex Asia Investments Pte. Ltd, IP Cathay II, L.P. and DT Capital China Growth Fund, L.P.
“Series B Liquidation Preference”	US\$1.2480499 per Series B Preferred Share, subject to adjustment from time to time, plus 12% per annum cumulative rate of return
“Series B Preferred Shares”	series B preferred shares in the capital of 91 Limited
“Share(s)”	the ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“SMP Trustees”	SMP Trustees (NZ) Limited, the trustee of The Waterloo Trust, the beneficiaries of which are the directors of the Company and 91 Limited
“Sino Coast”	Sino Coast Developments Limited, a limited liability company incorporated in the British Virgin Islands
“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
“Talent Zone”	Talent Zone Holdings Limited, a limited liability company incorporated in Hong Kong, a wholly owned subsidiary of 91 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, 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
“%”	per cent.

For the purpose of this announcement, conversion of RMB into HK\$ is calculated at the conversion rate of HK\$1.00 to RMB0.81036, and conversion of US\$ into HK\$ is calculated at the conversion rate of HK\$1.00 to US\$0.12901. These conversion rates are for purpose of illustration only and do not constitute a representation that any amounts have been, could have been, or may be, converted at these or any other rates at all.

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

Hong Kong, 10 January 2013

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.