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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)

**SHARE TRANSACTION IN RELATION TO ACQUISITION OF THE
ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY
INVOLVING ISSUANCE OF
CONSIDERATION SHARES UNDER GENERAL MANDATE**

The Agreement

On 3 June 2014 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Sale Shares for an aggregate consideration of up to US\$30,500,000 (equivalent to HK\$237,900,000). The Consideration is partly satisfied by cash and partly satisfied by allotment and issue of Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the General Mandate. The Purchaser also agree to pay a Capital Commitment in the amount of equivalent to US\$4,000,000 (equivalent to HK\$31,200,000) less third party legal and professional fees, costs and expenses incurred by the Purchaser in the negotiation, preparation, execution and completion of the Agreement, to the Target Company upon Completion.

Listing Rules Implications

As the applicable percentage ratios (as defined under the Listing Rules) in relation to the Agreement are less than 5%, as Consideration Shares will be allotted and issue, the Acquisition constitutes a share transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

THE AGREEMENT

On 3 June 2014 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement, with the Vendor, pursuant to which Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Sale Shares for an aggregate consideration of up to US\$30,500,000 (equivalent to HK\$237,900,000) upon the terms and conditions set out in the Agreement.

The principal terms of the Agreement are set out below:

DATE

3 June 2014 (after trading hours)

PARTIES

Purchaser:

NetDragon Websoft Inc., a wholly-owned subsidiary of the Company

Vendor:

Chiu Tsz Kiu Jason Felix, a merchant

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor is an Independent Third Party.

THE SUBJECT MATTER

The Sale Shares, representing the entire issued and paid up share capital of the Target Company, are wholly-owned by the Vendor.

The Vendor will conduct and complete the Reorganisation to split the Cherrypicks Group into two groups (i) Target Company and its subsidiaries; and (ii) Product Holdco and its subsidiaries before the Long Stop Date pursuant to which the Target Company will be legally and beneficially interested in 100% of each of the Target Subsidiaries. As at the date of the Agreement, all the Target Subsidiaries are directly or indirectly wholly-owned by the Vendor except for Tangor Technology Limited, a company incorporated in Hong Kong with limited liability, is interested as to 70% by the Vendor and 30% by an Independent Third Party.

CONSIDERATION

The Consideration shall be up to US\$30,500,000 (equivalent to HK\$237,900,000) in total and shall be satisfied by the Purchaser in the following manners:

- (a) US\$18,000,000 (equivalent to HK\$140,400,000) cash payable by the Purchaser to the Vendor at Completion (the “**Initial Consideration**”);
- (b) US\$4,500,000 (equivalent to HK\$35,100,000) by the Purchaser procuring the Company to allot and issue the Consideration Shares and upon such allotment and issue, to be deposited with the Trustee at Completion and dealt with in accordance with the vesting conditions as provided in the Trust Deed, of which 70%, 21.184%, 8.816% of the such shares shall be vested to the Vendor, the Key Employees and PB Employees as nominee of the Vendor respectively after Completion in accordance with such vesting conditions.
- (c) up to US\$8,000,000 (equivalent to HK\$62,400,000) cash payable by the Purchaser within 30 days upon the release of the Audited Accounts for the year ending 31 December 2014 with a clean unqualified opinion from the Designated Accounting Firm (the “**Remaining Consideration**”).

Capital Commitment

The Capital Commitment in the amount of equivalent to US\$4,000,000 (HK\$31,200,000) less third party legal and professional fees, costs and expenses incurred by the Purchaser in the negotiation, preparation, execution and completion of the Agreement, to be paid by the Purchaser in cash to the Target Company upon completion. Such Capital Commitment shall be utilised by the Target Group principally for business expansion purpose after settlement of the outstanding obligations of the Target Group pursuant to the Agreement.

The Consideration and the Capital Commitment were determined after arm’s length negotiations between the Group and the Vendor after taking into account (i) the financial and operation performance of Target Company; and (ii) the benefits of the Acquisition to the Target Group as detailed in the paragraph headed “Reasons for and benefits of the Acquisition” in this announcement.

The Directors (including the independent non-executive Directors) are of the view that the Consideration and the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Consideration Shares

A total of 2,626,204 Consideration Shares will be issued at HK\$13.3653 each which represents:

- (a) the average closing price of HK\$13.3653 per Share as quoted on the Stock Exchange in the last 30 consecutive trading days immediately prior to the date of the Agreement;
- (b) a discount of approximately 4.26% of the closing price of HK\$13.96 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 4.91% of the average closing price of approximately HK\$14.056 per Share as quoted on the Stock Exchange in the last five consecutive trading days immediately prior to the Last Trading Day; and
- (d) a discount of approximately 4.94% of the closing price of approximately HK\$14.06 per share as quoted on the Stock Exchange on the date of the Agreement.

The total number of the Consideration Shares represent approximately 0.51% of the issued share capital of the Company as at the date of this announcement and represent approximately 0.51% of the Company's issued share capital as enlarged by the issue of the Consideration Shares.

The Consideration Shares will be allotted and issued under the General Mandate subject to the limit of 102,170,402 Shares (representing 20% of the aggregate nominal amount of the share capital of the Company in issue on that date). The Consideration Shares when allotted and issued, will utilise approximately 2.57% of the General Mandate. As at the date of this announcement, the General Mandate has not been previously utilised prior to the Acquisition.

Application for listing

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when allotted and issued upon Completion, will rank *pari passu* in all respects with the existing Shares in issue.

Vesting of the Consideration Shares

The Consideration Shares will be vested to the Vendor and his nominees (being the Key Employees and PB Employees) in accordance with the vesting schedule under the Agreement and the Trust Deed. Upon Completion, the Company will allot and issue the Consideration Shares and settle the Consideration Shares on the Trust formed under the Trust Deed. The Consideration Shares will be held in a securities account in the name of the Trustee.

Subject to the vesting conditions under the Agreement, 1,838,343 Consideration Shares, being 70% of the Consideration Shares shall be vested with the Vendor, among which 16% of those Consideration Shares shall vest absolutely with the Vendor at each of the first to fifth anniversary dates of the Completion Date and 10% of those Consideration Shares shall vest absolutely with the Vendor at each of the sixth and seventh anniversary dates of the Completion Date.

Subject to the vesting conditions under the Agreement, 556,335 Consideration Shares, being 21.184% of the Consideration Shares shall be vested with the Key Employees, among which one third of those Consideration Shares shall vest absolutely with the Key Employees at each of the second to the fourth anniversary dates of the Completion Date.

Subject to the vesting conditions under the Agreement, 231,526 Consideration Shares, being 8.816% of the Consideration Shares shall be vested with the PB Employees, among which one third of those Consideration Shares shall vest absolutely with the PB Employees at each of the second to the fourth anniversary dates of the Completion.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Key Employees and the PB Employees whom the Consideration Shares are to be vested with are Independent Third Parties as at the date of this announcement.

Calculation of the Remaining Consideration

The Remaining Consideration, payable by the Purchaser to the Vendor within 30 days of the release of Audited Accounts for the year ending 31 December 2014, is calculated as follows:

$$E = (A \times B / C) - D$$

Where,

$$A = \text{US\$26,500,000}$$

- B = Adjusted before tax earnings for the year ending 31 December 2014 calculated in accordance with the Agreement
- C = HK\$30,000,000 (equivalent to approximately US\$3,846,154)
- D = US\$22,500,000
- E = Remaining Consideration, which shall not be less than zero

CONDITIONS PRECEDENT

The respective obligations of the parties to effect Completion shall be conditional upon the following conditions being fulfilled:—

- (a) the completion to the satisfaction of the Purchaser of the results of due diligence reviews on the Target Group to be conducted by the Purchaser;
- (b) all authorizations as defined in the Agreement and agreements (if any) which are required for the entering into or the performance of obligations under the Agreement by the Vendor and the Target Group having been obtained and remain in full force and effect and all filings with any relevant governmental or regulatory authorities and other relevant third parties which are required for the entering into or the implementation of the Agreement having been made;
- (c) the Purchaser being satisfied that there not having occurred, since the date of the Agreement any material adverse change (or effect) as defined in the Agreement on the Target Group;
- (d) the Vendor warranties remaining true and accurate in all material respects and not misleading in any material respect;
- (e) the delivery of the Business Plan;
- (f) the delivery of legal opinion issued by a PRC legal adviser, addressed to the Purchaser with respect to matters of PRC law in connection with the corporate information of the relevant subsidiaries of the Target Group in the PRC;
- (g) the delivery of legal opinion issued by an Indonesia legal adviser, addressed to the Purchaser with respect to matters of Indonesia law in connection with the corporate information of the relevant subsidiary of the Target Group in Indonesia;

- (h) the delivery of legal opinion issued by a Hong Kong legal adviser, addressed to the Purchaser with respect to matters of Hong Kong law in connection with the corporate information of the relevant subsidiary of the Target Group in Hong Kong;
- (i) the completion of the Reorganisation;
- (j) no order or judgment of any court or governmental, statutory or regulatory body having been issued or made prior to Completion, and no legal or regulatory requirements remaining to be satisfied which have the effect of making unlawful or otherwise resulted in any prohibition or restriction or delay in performance of the sale and purchase of the Sale Shares or completion of the Agreement and the transactions contemplated thereunder;
- (k) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares; and
- (l) the delivery of a draft of the Trust Deed to the Vendor in a form and with content satisfactory to the Vendor.

The Vendor shall use reasonable endeavours to procure the fulfillment of the conditions precedent set out in (b) to (j) above and the Purchaser shall use its best endeavours to procure the fulfillment of the conditions precedent set out in (j), (k) and (l) above. The Vendor and the Purchaser shall jointly use their reasonable endeavours to procure the fulfilment of the conditions precedent set out in (a) above.

If the conditions have not been fulfilled on or before 4:00 p.m. on 4 August 2014, being two months from the date of this Agreement, or such later date as the Vendor and the Purchaser may agree, either the Vendor or the Purchaser may terminate the Agreement, upon which no parties to the Agreement shall have any claims against the other party, save in respect of any prior breaches of the Agreement and claims arising out of the continuing provisions.

COMPLETION

Subject to satisfaction of all the conditions precedent as stated above, Completion will take place at the Completion Date (or at such time and such place as may be agreed by the parties to the Agreement in writing).

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Group.

INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated in the British Virgin Islands with limited liability, and is an investment holding company wholly owned by the Vendor, being the holding company of the Target Subsidiaries after completion of the Reorganisation.

Before completion of the Reorganisation, the Cherrypicks Group lead by the Vendor is a leading mobile technology and mobile marketing company in Asia-Pacific specialized in applying innovations such as augmented reality to digital media and mobile apps. The Cherrypicks Group focuses on developing Online-to-Offline (O2O) mobile marketing platforms such as iButterfly, keewee and Smart:D, and providing high quality mobile marketing solutions. In the past 3 years, the Cherrypicks Group has won over 100 international and local awards of technology and digital marketing, including the IT ‘Oscars’ World Summit Award Mobile Global Champion 2013 (m-Business & Commerce) and APICTA 2012 Winner Award. The Cherrypicks Group is also a case study at the renown highest ranking Business School in the world. It is a globally recognized guru in mobile solution innovations highly trusted by numerous long-term, multinational or local corporate clients in banking, insurance, gaming, restaurant, retailing, TV interaction, exhibition, travel, transportation and public sectors. After completion of the Reorganisation, the Target Group will be engaging in solely the Solution Business while the remaining Cherrypicks Group will be engaging in Product Business.

As at the date of this announcement, the Reorganisation has yet completed and the Target Group has not been existed, pursuant to the unaudited pro forma accounts of the Target Group, the net profit(loss) (after taxation and extraordinary items) of the Target Group for the two years ended 31 December 2013 were HK\$9,006,000 and (HK\$941,000) respectively. The net assets value of the Target Group as at 31 December 2013 was HK\$5,855,000.

CHANGE IN SHAREHOLDING STRUCTURE OF THE COMPANY

The following illustrates the Company's shareholding structure, assuming there is no further change to the share capital of the Company: (i) as at the date of this announcement; and (ii) immediately upon the allotment and issue of the Consideration Shares (assuming that there will not be any change in the issued share capital of the Company before Completion):

Shareholders	As at the date of this announcement		Immediately after the allotment and issuance of the Consideration Shares (assuming that there will not be any change in the issued share capital of the Company before Completion)	
	<i>Number of Shares</i>	<i>Approximate percentage of shareholdings</i>	<i>Number of Shares</i>	<i>Approximate percentage of shareholdings</i>
DJM Holdings Limited	191,078,100	37.40%	191,078,100	37.21%
Richmedia Holdings Limited	26,344,800	5.16%	26,344,800	5.13%
Fitter Property Inc.	19,021,700	3.72%	19,021,700	3.70%
Eagle World International Inc.	13,918,819	2.73%	13,918,819	2.71%
Directors				
Chen Hongzhan	1,727,800	0.34%	1,727,800	0.34%
Chao Guowei, Charles	497,019	0.10%	497,019	0.10%
Lee Kwan Hung	588,019	0.12%	588,019	0.11%
Liu Sai Keung, Thomas	417,019	0.08%	417,019	0.08%
Substantial Shareholders				
IDG Group	78,333,320	15.33%	78,333,320	15.26%
Vendor, Key Employees and PB Employees				
	—	—	2,626,204	0.51%
Other Public Shareholders	<u>178,925,415</u>	<u>35.02%</u>	<u>178,925,415</u>	<u>34.85%</u>
Total Shares in issue	<u>510,852,011</u>	<u>100%</u>	<u>513,478,215</u>	<u>100%</u>

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in online game and mobile Internet application development and operations in the PRC.

The Group has been actively seeking new strategic opportunities in order to enhance value of the Shareholders. It is expected that pursuant to the Acquisition, the Group will benefit from (i) the Target Group's original creativity, excellent design and advanced technology, engineering the user experience of extreme convenience in mobile phones developed by the Target Group; (ii) leverage the leading technology and superior design on user experience from the Target Group to enrich resources and infrastructure of the Group's " Mobile Corporate Solutions " and "Open Cloud-based Education Platform"; (iii) acceleration of the development and enhancement of the Group's various platforms running on different types of terminals including PC, smartphones and tablets; and (iv) accelerated global expansion by tapping into the established international clientele of the Target Group.

The Group believes that this investment is strategically important for the long-term growth of its business, and will generate material return for its Shareholders in the long run.

The Directors consider that the terms of the Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined under the Listing Rules) in relation to the Agreement are less than 5%, as Consideration Shares will be allotted and issued, the Acquisition constitutes a share transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Acquisition”	the acquisition of the entire issued share capital of the Target Company from the Vendor by the Purchaser pursuant to the terms and conditions of the Agreement
“Agreement”	the sale and purchase agreement entered into between the Purchaser and the Vendor on 3 June 2014 (after trading hours)
“associate(s)”	having the meaning ascribed thereto in the Listing Rules
“Audited Accounts”	the audited accounts of the Target Group issued within three months from 31 December 2014 by a Designated Accounting Firm
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong and any day on which a tropical cyclone warning no. 8 or above or a “black” rain warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are generally open for business
“Business Plan”	a business plan and budget of the Target Company for two years after Completion
“Capital Commitment”	the capital commitment to be paid by the Purchaser to the Vendor in accordance with the Agreement
“Cherrypicks Group”	the group wholly-owned by the Vendor prior to the completion of the Reorganisation principally engaged in the Product Business and the Solution Business
“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
“Completion”	completion of the sale and purchase of the Sale Shares pursuant to the terms of the Agreement

“Completion Date”	the date falling three Business Days after the fulfillment (or waiver) of the conditions set out in the Agreement or such other date as the Vendor and the Purchaser may agree
“connected person(s)”	having the meaning ascribed thereto in the Listing Rules
“Consideration”	up to US\$30,500,000 (equivalent to HK\$237,900,000), being the consideration payable by the Purchaser to the Vendor and/or its nominee in accordance with the Agreement
“Consideration Shares”	2,626,204 new Shares credited as fully paid up to be allotted and issued by the Company at the Issue Price to satisfy part of the Consideration
“Designated Accounting Firm”	any of Deloitte Touche Tohmatsu, Ernst & Young, KPMG or PricewaterhouseCoopers or any other accounting firm as agreed in writing by the Purchaser
“Director(s)”	director(s) of the Company
“General Mandate”	the general mandate to allot and issue the Shares representing 20% of the issued share capital of the Company as at 23 May 2014 granted to the Directors by the Shareholders at the annual general meeting of the Company convened and held on 23 May 2014
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party(ies) which is/are not connected person(s) (as defined under the Listing Rules) of the Company and is/are independent of the Company and its connected persons
“Issue Price”	HK\$13.3653, being the issue price per Consideration Shares under the Agreement
“Key Employees”	the list of key employees engaged by the Target Group whom part of the Consideration Shares will be vested with according to the vesting conditions and schedule as stated in the Agreement and the Trust Deed

“Last Trading Day”	30 May 2014, being the last trading day for the Shares before the date of the Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	4 August 2014 (or such other date as may be agreed between the Purchaser and the Vendor), being the last day by which the condition of the Acquisition shall be fulfilled
“PB Employees”	the list of key employees engaged by the Product Business whom part of the Consideration Shares will be vested according to the vesting conditions and schedule as stated in the Agreement and the Trust Deed
“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
“Product Business”	pure product play in the online-to-offline mobile marketing, mobile shopping and mobile commerce domains as a business to consumer service for consumers and brands
“Product Holdco”	a company to be set up by the Vendor to hold the Product Business, in accordance with the Reorganisation
“Purchaser”	NetDragon Websoft Inc., a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company
“Reorganisation”	a reorganisation to be completed by the Vendor before the Long Stop Date, pursuant to which the Target Group will be formed
“Sale Shares”	one ordinary issued share of US\$0.01 in the share capital of the Target Company
“Share(s)”	ordinary issued share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Solution Business”	all products, solutions and/or work in whatsoever format, offered by the Target Group companies prior to the signing of the Agreement, except those in Product Business
“Target Company”	Cherrypicks International Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, wholly-owned by the Vendor and the holding company of the Target Group upon completion of the Reorganisation
“Target Group”	the target group comprising the Target Subsidiaries and the Target Company after completion of Reorganisation
“Target Subsidiaries”	together, Red Dates Limited and ideaCulture International Limited (being British Virgin Islands subsidiaries of the Target Company after completion of the Reorganisation); Cherrypicks Limited, Cherrypicks Resources Company Limited, Cherish Media Company Limited, Tangor Technology Limited, Cherrypicks (China) Holdings Limited (all being Hong Kong subsidiaries of the Target Company after completion of the Reorganisation); PT Cherrypicks Indonesia (being Indonesia subsidiary of the Target Company after completion of the Reorganisation); and 珠海創奇思科技有限公司 (being PRC subsidiary of the Target Company after completion of the Reorganisation)
“Trust”	a trust to be set up by the Company in respect of the Consideration Shares to be held by the Trustee upon Completion
“Trust Deed”	a trust deed to be entered into between the Company and the Trustee for the management of the Trust at Completion
“Trustee”	a trustee to be mutually agreed by the Company and the Vendor and to be engaged by the Company for managing the Trust

“Vendor”	Chiu Tsz Kiu Jason Felix, a Hong Kong citizen, being the vendor of the Acquisition, an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For the purpose of this announcement, unless otherwise indicated, the exchange rates at US\$1 : HK\$7.8 have been used, where applicable, for the purpose of illustration only and not constitute a representation that any amount have been, could have been or may be exchanged.

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

Hong Kong, 3 June 2014

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.