NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

SUPPLEMENTAL ANNOUNCEMENT RELATING TO THE CONTROL DOCUMENTS ENTERED INTO BY THE COMPANY

The Board is pleased to announce that after trading hours on 10 February 2015, Fujian Tianquan, Fujian Huayu and Fujian NetDragon have entered into the Control Documents.

Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned enterprise, operating company or FITE (as defined below) that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

The Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Management Committee (as defined below) with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of Fujian NetDragon at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000. The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan and will give flexibility to the Management Committee to implement the Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

As the Control Documents are cloned from the ND Structure Contracts, transactions under the Control Documents are exempt from Shareholders' approval.

Reference is made to the Company's announcement dated 6 January 2015 (the "Announcement") in relation to the entering into of the Series A Agreement with the Series A Investors. Unless otherwise defined, capitalized terms used in this announcement shall have the same meaning as those defined in the Announcement.

Under the terms of the Series A Agreement, it is a condition precedent to Closing for Fujian Tianquan, Fujian NetDragon and Fujian Huayu to enter into the Control Documents and the equity interests in Fujian Huayu to be pledged to Fujian Tianquan in accordance with the Control Documents and applied for registration with the competent government authority.

The Board is pleased to announce that after trading hours on 10 February 2015, Fujian Tianquan, Fujian Huayu and Fujian NetDragon have entered into the Control Documents.

Information of the Control Documents is set out below.

INFORMATION ON THE CONTROL DOCUMENTS

Introduction

Fujian Huayu is primarily engaged in the development and operation of the Online Education Business and is considered to be engaged in the provision of value-added telecommunications services as a result of the provision of online educational services. Pursuant to the applicable PRC laws and regulations, foreign investors are restricted from conducting value-added telecommunications services.

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the "FITE Regulations"), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008. Pursuant to the FITE Regulations, a foreign investor must establish a Chinese-foreign equity joint venture with a Chinese partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise, or FITE, is allowed to be engaged in basic telecommunications business and value-added telecommunications business. The foreign investor's ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50%. On 13 July 2006, MIIT issued the Circular on Strengthening Administration of Foreign Invested Value-Added Telecommunications Business Operation (關於加強外商投資經營增資電信業務管理的通知) (the "MIIT Circular"). The MIIT Circular emphasizes that a foreign investor planning to invest in the value-added telecommunications sector in the PRC must set up an FITE and apply for the applicable telecommunications business operation license. A domestic value-added telecommunications services provider shall not lease, transfer or sell any telecommunications business operation license in any way to a foreign investor, or provide resources, sites, facilities or other conditions for a foreign investor to illegally operate a telecommunications business in the PRC.

As disclosed in the announcement dated 6 January 2015, Fujian Tianquan is principally engaged in the Online Education Business in the PRC. The Company wishes to clarify that as Fujian Tianquan is a wholly foreign-owned enterprise, it is restricted from investing in the telecommunications industry and therefore the Online Education Business. Fujian Tianquan's main business activity is the provision of technology support services and research and development of applications and software in the area of online education.

As a result of the foregoing laws and regulations, Best Assistant Education, through Fujian Tianquan, has entered into the Control Documents with Fujian Huayu to conduct the Online Education Business in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all of the economic benefits of, Fujian Huayu Group. The Control Documents is designed specifically to confer upon Fujian Tianquan the right to enjoy all the economic benefit of Fujian Huayu Group, to exercise management control over the operations of Fujian Huayu Group, and to prevent leakages of assets and values of Fujian Huayu Group to the registered equity holders of Fujian Huayu, (i.e. Fujian NetDragon or its registered shareholders). Fujian Tianquan is not obligated under the Control Documents to provide any financial support to Fujian Huayu Group. Where losses are incurred to Fujian Huayu Group, Fujian Tianquan will not share the losses directly. In respect of any limited liability company, under PRC Company Law (公司法), it is a basic principle that a shareholder's liability in respect of a company is limited to the registered capital it subscribes. Hence, even if a company incurs losses to the extent that it becomes insolvent, its shareholder is not under any legal obligation to bear any debt incurred by the company or provide any additional capital to the company (unless otherwise agreed by the shareholder). In the current case, there is no shareholding relationship between Fujian Tianquan and Fujian Huayu Group, but similarly, there is no legal obligation for Fujian Tianquan to share any losses incurred by Fujian Huayu Group.

Notwithstanding the above, since the Fujian Huayu Group is expected to contribute revenue to Fujian Tianquan by way of making payment to Fujian Tianquan under the Control Documents. Any loss incurred by the Fujian Huayu Group will have an adverse impact on the ability of the Fujian Huayu Group to make such payment and hence indirectly affecting Fujian Tianquan's financial performance on a consolidated basis. The Control Documents entered into by Fujian Tianquan, Fujian Huayu and Fujian NetDragon (where applicable) are: (i) the Cooperation Framework Agreement; (ii) the Technical Support Service Agreement; (iii) the Equity Interest Pledge Agreement; (iv) Exclusive Acquisition Rights Agreement; and (v) the Proxy Agreement.

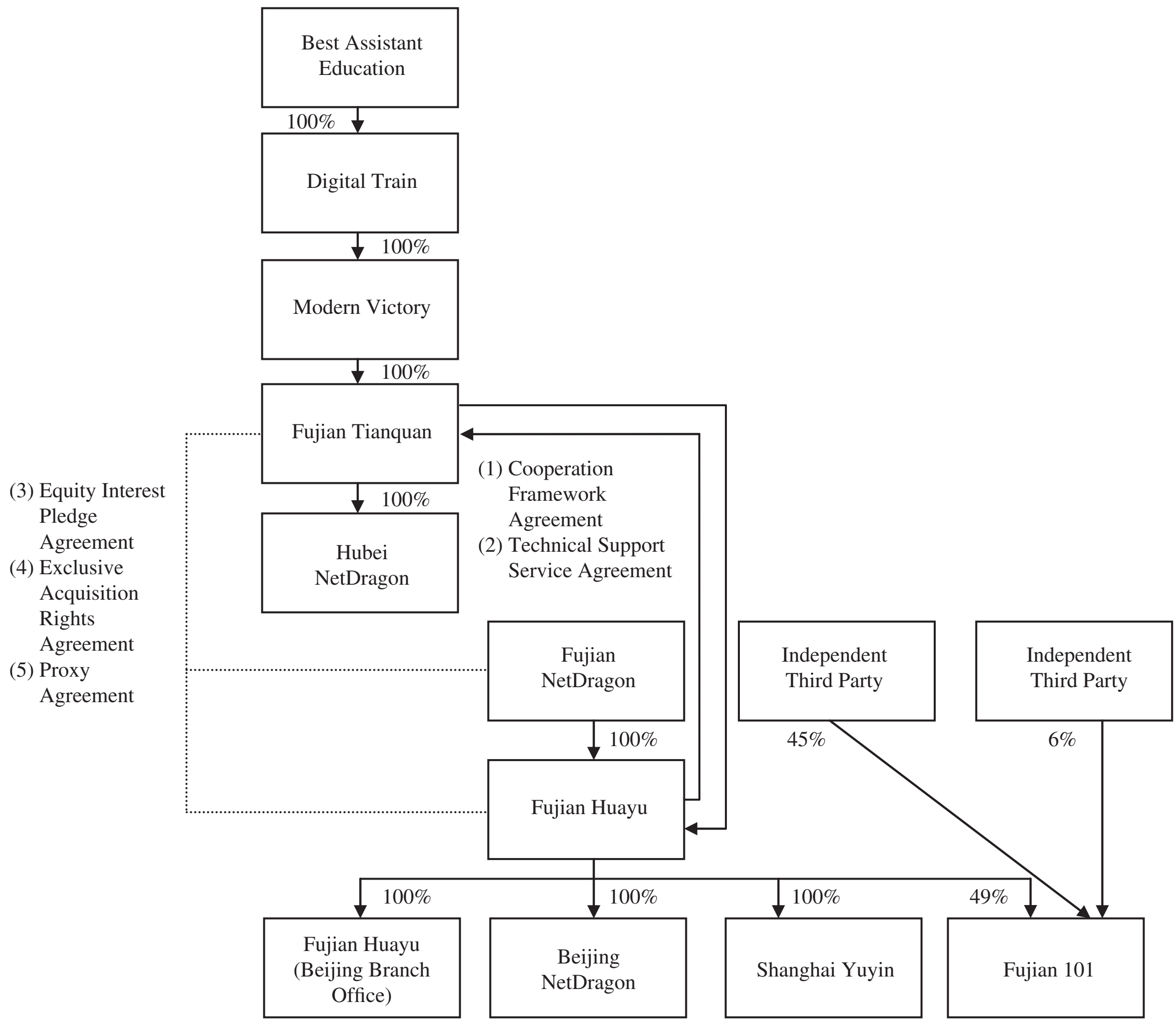
The PRC Legal Advisor is of the opinion that except certain terms of the Control Documents as set out in the paragraph headed "Risks relating to the corporate structure of the VIE Group — Certain terms of the Control Documents may not be enforceable under PRC laws" below, the Control Documents entered into by the Fujian Tianquan, Fujian Huayu and Fujian NetDragon are legally binding on and enforceable against each party of each of the agreements in accordance with their terms and provisions under PRC laws and regulations, including those applicable to the business of the Company, Best Assistant Education, Fujian Tianquan and Fujian Huayu and do not violate the articles of association of Fujian Tianquan and Fujian Huayu. The Directors therefore believe that save as disclosed, the Control Documents are enforceable under the relevant laws and regulations in the PRC, and that the Control Documents provide a mechanism that enables Best Assistant Education to exercise effective control over the Fujian Huayu Group.

The Board believes that the Control Documents have been narrowly tailored to achieve Best Assistant Education's business purpose and to minimize the potential for conflict with relevant PRC laws and regulations. Best Assistant Education's principal business is considered to be value-added telecommunications services, a sector where foreign investment is significantly restricted pursuant to FITE Regulations and MIIT Circular. In addition, certain business operation license (i.e., the ICP License) required for the operation of Best Assistant Education's principal business can only be obtained by PRC incorporated companies with less than 50% equity interest owned by foreign investor(s). Since Best Assistant Education was incorporated in the Cayman Islands, Fujian Tianquan is considered as a wholly foreign owned enterprise under PRC Laws. Therefore, Best Assistant Education and Fujian Tianquan are not eligible to apply for the license and approvals required for the operation of Best Assistant Education's principal business, nor could they acquire equity interests of any company which has already held these licenses under the PRC Laws. In order to comply with the applicable PRC Laws, the licenses and permits that are essential to the operation of the principal business are held by Fujian Huayu. Best Assistant Education, through Fujian Tianquan, entered into the Control Documents with Fujian Huayu to conduct its principal business in the PRC and to assert management control over the operations of, and enjoy all of the economic benefits of Fujian Huayu.

Moreover, pursuant to the Interim Measures on Administration of Education Website and Internet School (教育網站和網校暫行管理辦法) (the "Interim Measures") promulgated by the Ministry of Education of the PRC on 5 July 2000, the operation of education website and Internet school shall obtain pre-approval from the competent education administration authority. Under the Interim Measures, "education website" means entities providing services relating to education and other public educational information by connecting to Internet or educational TV channels through an Internet service provider; such entity establishes database through collection, procession, and storage of education information or sets up online educational platform together with information acquisition tool and search engine. "Internet school" means school website that provides academic and/or degree education at all levels, or school website that issues certification at all levels upon the completion of relevant trainings. Before the setting up an education website or Internet school, Fujian Huayu shall obtain pre-approval from the competent education administration authority, being the Education Department of Fujian Province.

Diagram of the Control Documents

The following simplified diagram illustrates the flow of economic benefits from the Fujian Huayu Group to Best Assistant Education stipulated under the Control Documents:



Cooperation Framework Agreement

Fujian Tianquan and Fujian Huayu entered into the Cooperation Framework Agreement, pursuant to which Fujian Tianquan and Fujian Huayu agreed to cooperate in the provision of services relating to the Online Education Business. The Cooperation Framework Agreement and the terms of reference of the Management Committee laid down the principles that the Management Committee shall have the right to determine the amount of service fees payable by Fujian Huayu with reference to the amount of expenditure incurred by Fujian Huayu in the conducting of its business and operations and its working capital requirements, including the guiding principle that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian

Tianquan without incurring any loss for each financial year; (ii) the net asset value of Fujian NetDragon at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and all of its subsidiaries, shall not exceed Fujian NetDragon's net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value of Fujian Huayu at the end of the year shall not exceed the amount of its registered capital as at 31 December 2014, being approximately RMB200,000,000. The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan, and will give flexibility to the Management Committee to implement the Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

The Control Documents empower the Management Committee to monitor the expenses of Fujian Huayu which are subject to annual review by the independent non-executive Directors. The Control Documents also impose restrictions on certain activities which can only be carried on by Fujian Huayu subject to approval of the Management Committee or otherwise carried on in accordance with the instructions or business plans adopted by the Management Committee from time to time, which include, amongst others, entering into agreements with or making payments or advances to any third parties outside the ordinary course of business; disposal or acquisition of any assets or rights; creating security interests over its assets or intellectual property rights in favour of any third parties; and entering into any connected transactions save for transactions with the Group.

Pursuant to the Cooperation Framework Agreement and the terms of the reference of the Management Committee, the Management Committee was set up to, amongst other things:

(a) assist Fujian Huayu in arranging the operation of its online education business and oversee the day-to-day operations of the online education business in the PRC;

(b) determine and adjust the amount of service fees payable by Fujian Huayu to Fujian Tianquan with reference to the amount of expenditure incurred by Fujian NetDragon in the conduct of its business and operations and its working capital requirements, under the guiding principle that Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year;

(c) supervise the expenditure of Fujian Huayu to maintain at a level sufficient for its basic day-to-day operations and business operations;

(d) monitor the net asset value of Fujian Huayu, to be reviewed by Fujian Huayu every three months, such that it shall not exceed RMB200,000,000 at the end of the year;

(e) monitor the net asset value of Fujian NetDragon whether on a stand-alone basis or when aggregated with its subsidiaries, including but not limited to Fujian Huayu and all of its subsidiaries, to be reviewed by Fujian NetDragon every three months, such that it shall not exceed RMB15,000,000 at the end of the year;

(f) coordinate the allocation of manpower;

(g) supervise the recruitment and training of staff for online education business;

(h) supervise the implementation of the Control Documents;

(i) make recommendations and decisions in respect of material issues which arise in the cooperation between Fujian Huayu and Fujian Tianquan;

(j) supervise and direct the financial, accounting and the settlement of service fees payable under the Control Documents;

(k) monitor, supervise and give advice in relation to the technical support service provided by Fujian Tianquan to Fujian Huayu;

(l) monitor the activities of Fujian Huayu such that it would not, amongst other things, (i) enter into agreements with or making payments or advances to any third parties outside the ordinary course of business; (ii) dispose of or acquire any assets or rights; (iii) create security interests over its assets or intellectual property rights in favour of any third party; (iv) agree or allow any third party to infringe in any way the intellectual property rights owned by Fujian Tianquan; (v) give any form of guarantees in favour of any third party; (vi) enter into any connected transactions save for transactions with us; or (vii) enter into any cooperation arrangements with any third party which are similar to those provided under the Control Documents; and

(m) such other matters which Fujian Huayu and Fujian Tianquan have agreed to delegate the Management Committee to coordinate.

The Management Committee

The Control Documents establish the Management Committee to oversee the business and operations of Fujian Huayu. The Management Committee comprises four members, of which each of Fujian Huayu and Fujian Tianquan is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the Management Committee may only be removed by the party who originally appointed such member. As a general requirement, the members appointed by Fujian Tianquan must be the directors of Fujian Tianquan. The members appointed by Fujian Huayu must be concurrently directors of Fujian Huayu and Fujian Tianquan. In case where the number of members appointed by Fujian Huayu who concurrently act as director of both Fujian Tianquan and Fujian Huayu is less than two, Fujian Tianquan is entitled to appoint an additional member to the Management Committee. As such, under the Control Documents, the Management Committee is allowed to have a maximum of five members.

Meetings of the Management Committee are held regularly on a quarterly basis. The quorum for a meeting of the Management Committee is three (including at least one member appointed by each of Fujian Tianquan and Fujian Huayu).

The Management Committee adopts decisions by simple majority resolution of its members. If there is an equal number of votes for and against a decision, Fujian Tianquan and Fujian Huayu shall each appoint an independent third person to decide the matter, failing which the matter shall be decided by the common ultimate individual equity owners of Fujian Tianquan and Fujian Huayu whose decision shall be final and binding on members of the Management Committee.

The Management Committee will hold meetings quarterly to determine the service fees payable by Fujian Huayu to Fujian Tianquan. To facilitate such determination, accounts of Fujian Huayu as at the end of the relevant period have to be submitted to the Management Committee for review and discussion. As a result, the Management Committee will take the figures into consideration to determine the service fees payable by Fujian Huayu to Fujian Tianquan. The service fees are paid by Fujian Huayu to Fujian Tianquan from time to time in accordance with the decisions of the Management Committee. The Management Committee will also review the net asset value of Fujian Huayu at least every three months and make necessary adjustment to the net asset value to a level not exceeding RMB200 million at the end of the year.

Through its control over the Management Committee by the above arrangement, Fujian Tianquan is able to monitor, supervise and effectively control Fujian Huayu's business and operations so as to ensure and facilitate the implementation of the Control Documents, particularly, the abovementioned guiding principles laid down thereunder. Among its various functions, the Management Committee is responsible for determining and adjusting the amount and pricing basis of the service fees payable by Fujian Huayu to Fujian Tianquan with reference to the amount of expenditure incurred by Fujian Huayu in the conducting of its business and operations and its working capital requirements.

Any amendments to the Control Documents may be made subject to resolution of members of the Management Committee and approval of our Shareholders in general meeting. No amendments to the Control Documents can be made unless it is required under the Listing Rules or is consented by us in writing in advance.

The Cooperation Framework Agreement is for an indefinite term commencing from the date of the agreement (i.e. 10 February 2015) which will terminate when Fujian Huayu have transferred all its assets or equity interests to Fujian Tianquan or a party designated by Fujian Tianquan.

Technical Support Service Agreement

Fujian Tianquan and Fujian Huayu entered into the Technical Support Service Agreement, pursuant to which Fujian Tianquan would provide technical support services to Fujian Huayu in consideration of a per annum services fee determined as a percentage of Fujian Huayu's annual gross revenues (which may be adjusted by the Management Committee from time to time pursuant to the Cooperation Framework Agreement).

The Technical Support Service Agreement is for an indefinite term commencing from the date of the agreement (i.e. 10 February 2015) which will terminate when Fujian Huayu have transferred all its assets or equity interests to Fujian Tianquan or a party designated by Fujian Tianquan.

Equity Interest Pledge Agreement

Fujian Tianquan, Fujian Huayu and Fujian NetDragon, being the holder of all equity interests of Fujian Huayu, entered into the Equity Interest Pledge Agreement, pursuant to which Fujian NetDragon granted a continuing first priority security interests over its equity interests in the registered capital of Fujian Huayu (the "Pledged Securities"), representing all of the equity interests in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Huayu under the Control Documents.

Under the Equity Interest Pledge Agreement, Fujian Tianquan is entitled to exercise its right to purchase the Pledged Securities at an agreed price or sell any or all of the Pledged Securities through an auction or private sale or dispose of the Pledged Securities in any other manner permitted by applicable laws and regulations, on the occurrence of any of the following:

(a) Fujian NetDragon is in breach of any of its obligations under the Equity Interest Pledge Agreement, the Exclusive Acquisition Rights Agreement or the Proxy Agreement;

(b) Fujian Huayu is in breach of any of its obligations under the Control Documents;

(c) the representations, undertakings or other information given by Fujian Huayu or Fujian NetDragon under the Control Documents become untrue or misleading in material aspect;

(d) any term of the Control Documents become unenforceable as a result of change in the relevant law and regulations of the PRC or by any other reasons; or

(e) Fujian NetDragon transfers or creates any pledge on all or part of its interest in Fujian Huayu or takes any action which harms Fujian Tianquan's priority security interests under this Equity Interest Pledge Agreement without Fujian Tianquan's prior written consent.

The Equity Interest Pledge Agreement is for an indefinite term commencing from the date of the agreement (i.e. 10 February 2015) which will terminate on the date of discharge of all obligations under the Equity Interest Pledge Agreement or all secured obligations, whichever is earlier.

Exclusive Acquisition Rights Agreement

Fujian Tianquan, Fujian Huayu and Fujian NetDragon entered into an agreement for the exclusive right to acquire equity interests and/or assets of Fujian Huayu, pursuant to which (a) Fujian NetDragon granted to Fujian Tianquan or its designee a right to acquire part or all of the equity interest in the registered capital of Fujian Huayu; and (b) Fujian Huayu granted to Fujian Tianquan a right to acquire part or all of the assets of Fujian Huayu as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by Fujian Tianquan shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law. If the minimum amount of consideration stipulated under the relevant PRC laws and regulations is higher than the nominal amount, Fujian NetDragon will reimburse Fujian Tianquan any amount in excess of the nominal amount.

The Exclusive Acquisition Rights Agreement contains specific covenants given by Fujian Huayu and Fujian NetDragon with respect to the governance of Fujian Huayu and the conduct of the business of Fujian Huayu. Among these covenants, Fujian NetDragon have agreed not to transfer or encumber its equity interests in Fujian Huayu without the consent of Fujian Tianquan. Fujian Huayu has agreed, among others,

(a) not to sell or encumber any of Fujian Huayu's assets without Fujian Tianquan's prior written consent or as permitted under the Equity Interest Pledge Agreement;

(b) not to change its registered capital structure without Fujian Tianquan's prior written consent;

(c) not to distribute profits of Fujian Huayu to Fujian NetDragon or its equity holders;

(d) to conduct the business of Fujian Huayu in accordance with the Cooperation Framework Agreement and Management Committee's directions from time to time; and

(e) not to liquidate or dissolve Fujian Huayu without Fujian Tianquan's prior written consent.

The Exclusive Acquisition Rights Agreement is for an indefinite term commencing from the date of the agreement (i.e. 10 February 2015) which will terminate when Fujian Tianquan have exercised its right to purchase all the assets or equity interests of Fujian Huayu.

Proxy Agreement

Fujian NetDragon entered into an equity holders' voting rights proxy agreement with Fujian Tianquan and Fujian Huayu to irrevocably authorise Fujian Tianquan or a nominee designated by Fujian Tianquan to exercise all their voting rights as an equity holder thereof, including but not limited to (i) the right to sell, transfer, pledge or dispose of shares; (ii) exercise shareholders' voting rights; (iii) appoint the director and supervisor, sign minutes and file documents with the relevant companies registry. The term of the Proxy Agreement shall continue indefinitely for an indefinite term commencing from the date of the agreement (i.e. 10 February 2015) which will terminate when Fujian Tianquan have exercised its right to purchase all the assets or equity interests of Fujian Huayu.

Manner of settlement of disputes which may arise from the Control Documents

Pursuant to the Control Documents, any dispute arising from the interpretation and implementation of the Control Documents between the parties should first be resolved through negotiation, failing which any party may submit the said dispute to the Fuzhou International Economic and Trade Arbitration Commission ("**FIETAC**") with a view to resolving the dispute through arbitration in accordance with the arbitration rules of the FIETAC. The results of the arbitration shall be final and binding on all relevant parties. The Control Documents contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Fujian Huayu, injunctive relief and/or winding up of Fujian Huayu. In addition, our contractual arrangements contain provisions to the effect that courts in the PRC, Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. The PRC Legal Advisor is of the opinion that the above provision contained in the Control Documents may not be enforceable. For details, please refer to the paragraph headed "Risks relating to the Corporate Structure of the VIE Group — Certain Terms of the Control Documents may not be enforceable under PRC laws" below.

Financial Information of Fujian Huayu Group

For the two years ended 31 December 2012 and 2013, Fujian Huayu Group incurred losses of approximately RMB27,000 and RMB1,376,000. For the 9 months ended 30 September 2014, Fujian Huayu Group incurred revenue of approximately RMB475,000.

The financial results of Fujian Huayu are accounted for and consolidated in the Company's consolidated accounts as if it were a subsidiary of the Group.

RISKS RELATING TO THE CORPORATE STRUCTURE OF THE VIE GROUP

The PRC government may determine that Corporate Structure of the VIE Group or the Control Documents are not in compliance with any existing or future applicable PRC laws or regulations.

If the PRC government finds that the agreements that will establish the structure for operating Online Education Business of the VIE Group in the PRC do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the VIE Group could be subject to severe consequences, including the nullification of the Control Documents and the relinquishment of Fujian Tianquan's interest in the VIE.

According to the Administrative Rules for Foreign Investments in Telecommunications Enterprises (外商投資電信企業管理規定) issued by the State Council on 11 December 2001 and amended on 10 September 2008, foreign investors' ultimate equity ownership in an entity in the PRC providing value-added telecommunications services shall not exceed 50% and a foreign investor wishing to acquire any equity interest in a value-added telecommunications business in the PRC must demonstrate (i) a good track record and (ii) experience in providing value-added telecommunications services overseas ("**Qualification Requirement**"). As such, if the restrictions on the percentage of foreign ownership in telecommunications services and on foreign ownership in value-added telecommunications businesses are lifted, the Control Documents may be required to be unwounded before the VIE Group is in a position to comply with the Qualification Requirement.

Fujian Huayu is principally engaged in the Online Education Business. Under the current PRC regulatory circumstances, Fujian Tianquan, as a wholly foreign owned enterprise, would not be able to obtain the relevant business license(s) of such business and thus is unable to provide the value-added telecommunications services in the PRC directly. In compliance with 外商投資電信企業管理規定 (Administration Rules for Foreign Investments in Telecommunication Enterprises) ("**FITE Regulations**") and other relevant laws, Fujian Tianquan would not be able to hold more than 50% equity interests in Fujian Huayu, which would render Fujian Tianquan ineligible to obtain the relevant business license(s).

The MIIT has issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant's annual reports for past three years, proof of Qualification Requirement and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to satisfy the Qualification Requirement. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Save for the aforesaid guidance memorandum, as at the date of this announcement, no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirement.

The Group has a record of operating online games overseas, which is likely to be considered as operation of value-added telecommunications business overseas. However, due to lack of clear guidance or interpretation, it is uncertain whether such record would be deemed to satisfy the Qualifications Requirement by the relevant government authorities.

On 13 July 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (關於加強外商投資經營增值電信業務管理的通知) ("**MIIT Circular**"), which reiterated restrictions on foreign investment in telecommunications businesses. Under the MIIT Circular, a domestic company that holds an ICP License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to provide ICP services illegally in the PRC. Due to a lack of interpretative materials from the authorities, it cannot be assured that the MIIT will not consider the corporate structure of the VIE Group and the Control Documents as a kind of foreign investment in telecommunications services, in which case the VIE Group may be found in violation of the MIIT Circular.

Best Assistant Education is a Cayman Islands company and its wholly-owned PRC subsidiary, Fujian Tianquan is considered as a wholly foreign-invested enterprise. As stated above, the PRC government restricts foreign investment in value-added telecommunications businesses. Due to these restrictions, Best Assistant Education conducts its operations in the PRC through its VIE, Fujian Huayu. Although Best Assistant Education does not have any equity interest in Fujian Huayu, Best Assistant Education is able to, through Fujian Tianquan, exercise effective control over Fujian Huayu and its subsidiaries and receive all of the economic benefits of its operations through the Control Documents with Fujian Huayu and Fujian NetDragon.

In or around September 2011, various media sources reported that the CSRC had prepared a report proposing regulating the use of VIE structures, such as that of Best Assistant Education, in industry sectors subject to foreign investment restrictions in the PRC and overseas listings by China-based companies. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to VIE structures will be adopted or if adopted, what they would provide.

The PRC Legal Advisor is of the opinion that except for the dispute resolution clause as mentioned under the paragraph headed "Certain terms of the Control Documents may not be enforceable under PRC laws" below, (i) the Control Documents are legal, valid and binding on the parties to the agreements under the Control Documents, and (ii) each of the Control Documents does not violate any mandatory provisions of current PRC laws promulgated by the National People's Congress of the PRC or its Standing Committee, or of any mandatory provisions of administrative regulations issued by the State Council of the PRC.

The PRC Legal Advisor has further advised that the Control Documents do not amount to "concealing an illegitimate purpose under the guise of legitimate acts" under Article 52 of the PRC Contract Law based on its knowledge and facts that: (i) as confirmed by the Company, the parties enter into the Control Documents for the purpose to use the economic interests generated from Fujian Huayu as consideration for obtaining services provided by Fujian Tianquan; (ii) as confirmed by the Company, the parties enter into the Control Documents also for the purpose to ensure equity holder of Fujian Huayu, Fujian NetDragon and its equity holders would not carry out any act that is contrary to the interest of Fujian Tianquan; and (iii) each of the Control Documents does not violate any mandatory provisions of current PRC laws promulgated by the National People's Congress of the PRC or its Standing Committee, or of any mandatory provisions of administrative regulations issued by the State Council of the PRC. In arriving at its opinion, the PRC Legal Adviser has taken all possible actions and/or steps, including requesting the Company to consult with the relevant government entities. According to a telephone interview with an official of the market management department under the information bureau of MIIT, MIIT confirmed that it has not declared any Control Documents void or requested the unwinding of the Control Documents. The PRC Legal Advisor is of the view that MIIT is the competent authority in regulating and administering telecommunication services in the PRC and its personnel consulted in the interview is competent to interpret the relevant laws, regulations and rules of the PRC in respect to value-added telecommunication services.

As of the date of this announcement, the Company has not encountered any interference from any governing bodies in operating its business through Fujian Huayu under the VIE Agreements.

However, it cannot be assured that the PRC government or judicial authorities would agree that the corporate structure of the VIE Group or the Control Documents comply with PRC licensing, registration, other regulatory requirements or policies that may be adopted in the future. If the PRC government or judicial authorities determines that the VIE Group does not comply with applicable laws and regulations, it could have broad discretion in dealing with such incompliance, including:

1. requiring the nullification of the Control Documents;

2. levying fines and/or confiscating the proceeds generated from the operations under the Control Documents;

3. revocation of the business licenses or operating licenses of Fujian Huayu and/or Fujian Tianquan;

4. discontinuing or placing restrictions or onerous conditions on the business operations of Fujian Huayu and/or Fujian Tianquan;

5. imposing conditions or requirements which the VIE Group may not be able to comply with or satisfy;

6. requiring VIE Group to undergo a costly and disruptive restructuring; and

7. taking other regulatory or enforcement actions that could be harmful to or even shut down business of VIE Group.

The imposition of any of the above-mentioned consequences could result in a material and adverse effect on VIE Group's ability to conduct its business. In addition, if the imposition of any of these consequences causes Fujian Tianquan to lose the rights to direct the activities of Fujian Huayu or its right to receive its economic benefits, Best Assistant Education would no longer be able to consolidate the financial results of Fujian Huayu and thus affect the financial results of Best Assistant Education as well as the Group's investment in Best Assistant Education.

Fujian Tianquan relies on the Control Documents to control and obtain the economic benefits from Fujian Huayu Group, the operating entities in the PRC, which may not be as effective in providing operational control as direct ownership.

Due to the PRC's legal restrictions on foreign investment in value-added telecommunication services, Best Assistant Education, through Fujian Tianquan, controls, through the Control Documents rather than equity ownership, Fujian Huayu Group, the operating entities in the PRC and the holder of the key licenses required to operate online education business in the PRC.

However, the Control Documents still may not be as effective in exercising control over Fujian Huayu as equity ownership. For example, Fujian Huayu and its equity holder, Fujian NetDragon could breach or fail to perform their obligations under the Control Documents. If Fujian Tianquan had direct ownership of Fujian Huayu, Fujian Tianquan would be able to exercise its rights as a shareholder to effect changes in its board of directors, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management and operational level. Under the Control Documents, Fujian Tianquan would need to rely on its rights under the Cooperation Framework Agreement, the Technical Support Services Agreement and the Proxy Agreement to effect such changes, or designate new equity holders for Fujian Huayu under the Exclusive Acquisition Rights Agreement.

If Fujian Huayu or Fujian NetDragon breach their obligations under the Control Documents or if Fujian Tianquan loses the effective control over Fujian Huayu for any reason, Fujian Tianquan would need to bring a claim against them under the terms of the Control Documents. The Control Documents are governed by the PRC law and provide that any dispute arising from these arrangements will be submitted to the FIETAC, for arbitration, the ruling of which will be final and binding. Furthermore, liabilities of Fujian NetDragon may also subject the equity interest they hold in Fujian Huayu to court preservation actions or enforcement. The legal framework and system in the PRC, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as Hong Kong. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in the PRC, which could limit Fujian Tianquan's ability to enforce the Control Documents and exert effective control over Fujian Huayu. If Fujian Huayu or Fujian NetDragon fails to perform its respective obligations under the Control Documents, and Fujian Tianquan are unable to enforce the Control Documents, or suffer significant delay or other obstacles in the process of enforcing the Control Documents, the VIE Group's business and operations could be severely disrupted, which could materially adversely affect its results of operations. As a result, the Group's investment in Best Assistant Education could also be materially and adversely affected.

Certain terms of the Control Documents may not be enforceable under PRC laws.

The Control Documents provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the FIETAC in the PRC. The Control Documents contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Fujian Huayu, injunctive relief and/or winding up of Fujian Huayu. In addition, our contractual arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

However, the PRC Legal Advisor has advised that the abovementioned provisions contained in the Control Documents may not be enforceable. Under PRC laws, an arbitral body granting any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in PRC legal entities in case of disputes shall submit the application to courts in the PRC. Therefore, such remedies may not be available to Fujian Tianquan, notwithstanding the relevant contractual provisions contained in the Control Documents. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in Fujian Huayu in favour of an aggrieved party. In the event of non-compliance with such award made by the arbitral body, enforcement measures may be sought from the court.

However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against Fujian Huayu as interim remedies to preserve the assets or shares in favour of any aggrieved party. The PRC Legal Advisor is also of the view that, even though the Control Documents provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies by overseas courts may not be recognized or enforced by PRC courts. As a result, in the event that Fujian Huayu or Fujian NetDragon or any of its equity holders breaches any of the Control Documents, Fujian Tianquan may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over Fujian Huayu and conduct its business could be materially and adversely affected and the financial performance of Best Assistant Education could be materially and adversely affected. As a result, the Group's investment in Best Assistant Education could also be materially and adversely affected.

The Control Documents between Fujian Tianquan and Fujian Huayu may be subject to scrutiny by the PRC tax authorities and any finding that Fujian Tianquan or Fujian Huayu owes additional taxes could substantially reduce the consolidated net income of Best Assistant Education and the value of the Group's investment in Best Assistant Education.

Under the Control Documents among Fujian Tianquan and Fujian Huayu and Fujian NetDragon, Fujian Huayu will transfer all of its profits to Fujian Tianquan (less any accumulated loss, working capital requirements, expenses and tax of Fujian Huayu), which will substantially reduce Fujian Huayu's taxable income. These arrangements and transactions are related party transactions which must be conducted on an arm's length basis under applicable PRC tax rules. In addition, under PRC laws and regulations, arrangements and transactions among related parties may generally be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. As a result, the determination of service fees and other payments to Fujian Tianquan by Fujian Huayu under the Control Documents may be challenged and deemed not in compliance with such tax rules. The VIE Group could face material and adverse tax consequences if the PRC tax authorities determine that the Control Documents were not entered into on an arm's length basis and therefore adjust the taxable income of Fujian Huayu in the form of a transfer pricing adjustment which refers to the prices that one member of a group of affiliated corporation's charges to another member of the group for goods, assets, services, financing or the use of intellectual property. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by Fujian Huayu, which could in turn increase Fujian Huayu's tax liabilities. Any such adjustment could result in a higher overall tax liability of the VIE Group. In addition, the PRC tax authorities may impose late payment fees and other penalties on Fujian Huayu for any unpaid taxes. The consolidated net income of the Best Assistant Education may be materially and adversely affected if Fujian Huayu's tax liabilities increase or if it is subject to late payment fees or other penalties. As a result, the value of the Group's investment may be materially and adversely affected.

The controlling shareholder of Fujian Huayu and Fujian NetDragon have potential conflicts of interests with us which may affect our business

Fujian NetDragon is owned approximately 98.86% by Liu Dejian, Liu Luyuan and Zheng Hui who are our executive Directors. Accordingly, there may be conflicts of interest between their duties to Fujian NetDragon and us. We cannot assure you that when such conflicts arise, all of them will act in our best interests or that such conflicts will be resolved in our favour.

Whether such conflicts of interest could be effectively managed or otherwise resolved in favour of our Group will be crucial to the effectiveness of contractual arrangements contemplated under the Control Documents. There are arrangements in place under the Control Documents to address the potential conflicts of interest that Fujian NetDragon may have with the Group. Specifically, the Exclusive Acquisition Rights Agreement and the Proxy Agreement are designed to address such potential conflicts of interest. For instance, under the Proxy Agreement, Fujian Tianquan or its designee shall exercise all shareholders' rights in Fujian Huayu; while under the Exclusive Acquisition Rights Agreement, Fujian NetDragon shall not engage in any transactions which will materially affect the assets, business, rights operations or management of Fujian Huayu without prior consent of Fujian Tianquan. If any conflicts of interest between Fujian NetDragon's equity holders and the Group arise and if Fujian Huayu and/or Fujian NetDragon violate any of the Control Documents or otherwise become unable to perform, in whole or in part, their respective obligations under the Control Documents, our Group's operations, reputation and business could be adversely affected.

INSURANCE

The Company does not maintain any insurance to cover the risks relating to the Control Documents.

WAIVER FROM SHAREHOLDERS' APPROVAL REQUIREMENTS

Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned enterprise, operating company or FITE that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

The Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Management Committee (as defined below) with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of Fujian NetDragon at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and all of its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value of Fujian Huayu at the end of the year shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000. The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan and will give flexibility to the Management Committee to implement the Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

The Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Control Documents and will provide a letter to the Board, with a copy to the Stock Exchange, at least 10 business days before the Company bulk print its annual report, confirming that the economic interest generated by Fujian Huayu is flowed to Fujian Tianquan in accordance with the criteria and principles set out in the Control Documents and are properly approved by the Management Committee, that (i) the net asset value of Fujian NetDragon at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and all of its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; (ii) the net asset value of Fujian Huayu at the end of the year shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000; and (iii) no dividends or other distributions have been made by Fujian Huayu to the holders of the equity interests of Fujian NetDragon. The above confirmation from the Company's auditors will also be disclosed in the annual report of the Company.

As the Control Documents are cloned from the ND Structure Contracts, transactions under the Control Documents are exempt from Shareholders' approval.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

"Control Documents"	the Cooperation Framework Agreement, the Technical Support Service Agreement, the Equity Interest Pledge Agreement, the Exclusive Acquisition Rights Agreement and the Proxy Agreement
"Cooperation Framework Agreement"	the cooperation framework agreement entered into between Fujian Tianquan and Fujian Huayu
"CSRC"	China Securities Regulatory Commission (中華人民共和國證券監督管理委員會)
"Equity Interest Pledge Agreement"	the equity interest pledge agreement entered into among Fujian Tianquan, Fujian Huayu and Fujian NetDragon
"Exclusive Acquisition Rights Agreement"	the exclusive acquisition rights agreement entered into between Fujian Tianquan, Fujian Huayu and Fujian NetDragon
"Fujian Huayu Group"	Fujian Huayu, its subsidiaries and affiliates
"ICP License"	the value-added telecommunications business operating license (增值電信業務經營許可證), which is generally known as the "Internet content provider license"
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"MIIT"	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"ND Structure Contracts"	certain structured contracts entered into among the subsidiaries and affiliates of the Company, particulars of which are set out in "Structure Contracts" in the prospectus of the Company dated 27 May 2008

"PRC"	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Legal Advisor"	Jingtian Gongcheng, the legal advisor to the Company as to the laws of the PRC
"Proxy Agreement"	the equity holders' voting rights proxy agreement entered into between Fujian Tianquan, Fujian Huayu and Fujian NetDragon
"Specific Waiver"	the specific waiver from strict compliance with the connected transaction requirements of Chapter 14A including but not limited to ND Structure Contracts dated 2 May 2008
"RMB"	Renminbi, the lawful currency of the PRC
"Technical Support Service Agreement"	the technical support service agreement entered into between Fujian Tianquan and Fujian Huayu
"VIE"	variable interest entity, which in this announcement refers to Fujian Huayu
"VIE Group"	Best Assistant Education and its subsidiaries together with Fujian NetDragon, Fujian Huayu and its subsidiaries

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

Hong Kong, 10 February 2015

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.