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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)**

**CONTINUING CONNECTED TRANSACTION IN RELATION TO  
RENEWAL OF SERVICE AGREEMENT**

**INTRODUCTION**

The Existing Service Agreement dated 28 December 2012 entered into between NetDragon (Fujian) and Fuzhou Tianliang in relation to the provision of (i) computer system repair and maintenance service and (ii) after-sales service to NetDragon (Fujian) has expired on 31 December 2015. On 31 December 2015, NetDragon (Fujian) entered into the Renewal Service Agreement with Fuzhou Tianliang, pursuant to which Fuzhou Tianliang agreed to provide the Services to NetDragon (Fujian) for a period from 1 January 2016 to 31 December 2018 for each of the financial years ending 31 December 2016, 2017 and 2018 at an annual fee of RMB21,106,800, RMB23,217,480 and RMB25,539,228 (equivalent to approximately HK\$25,200,000, HK\$27,700,000 and HK\$30,500,000), respectively.

**IMPLICATIONS UNDER THE LISTING RULES**

Fuzhou Tianliang is wholly owned by Miss Lin. As disclosed in the announcement of the Company on 27 April 2009, Miss Lin confirmed that she is acting under the instructions of the Controlling Shareholders regarding her interests in Fuzhou Tianliang and therefore, Miss Lin and Fuzhou Tianliang are deemed to be connected persons to the Company under the Listing Rules. The transaction contemplated under the Renewal Service Agreement constitutes continuing connected transaction on the part of the Company under Chapter 14A of the Listing Rules.

Given that the transaction amounts under the Renewal Service Agreement on annual basis fall within the threshold prescribed under Rule 14A.76(2) of the Listing Rules, the entering into the Renewal Service Agreement is only subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules and is exempt from independent shareholders' approval requirement.

Reference is made to the announcement of the Company dated 28 December 2012 regarding the Existing Service Agreement entered into between NetDragon (Fujian) and Fuzhou Tianliang in relation to the provision of (i) computer system repair and maintenance service and (ii) after-sales service to NetDragon (Fujian) which has expired on 31 December 2015. On 31 December 2015, NetDragon (Fujian) entered into the Renewal Service Agreement with Fuzhou Tianliang, pursuant to which Fuzhou Tianliang agreed to provide the Services to NetDragon (Fujian) for a period from 1 January 2016 to 31 December 2018 for each of the financial years ending 31 December 2016, 2017 and 2018 at an annual fee of RMB21,106,800, RMB23,217,480 and RMB25,539,228 (equivalent to approximately HK\$25,200,000, HK\$27,700,000 and HK\$30,500,000), respectively.

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

#### **RENEWAL SERVICE AGREEMENT**

Date: 31 December 2015

Parties: (i) Fuzhou Tianliang, as the service provider  
(ii) NetDragon (Fujian), as the service consumer

Nature of transaction: The provision of (i) the computer system repair and maintenance service; and (ii) after-sales service.

Term: For a period of three years commencing from 1 January 2016 to 31 December 2018 (both days inclusive).

Service fee: RMB1.5 and RMB7.0 multiplied by the sum of monthly incoming call volume, monthly online reported volume and monthly hardware account reported volume of NetDragon (Fujian) being the technical maintenance fee and the after-sales service charges respectively. Parties may agree to adjust the service fee from time to time but any adjustment must be on the basis of fair and reasonable market value.

Payment term: Payable by the Group in arrear on a monthly basis.

The Directors consider that the terms of the abovementioned service fee, being the consideration to be paid by NetDragon (Fujian) to Fuzhou Tianliang under the Renewal Service Agreement are no less favourable to NetDragon (Fujian) than terms available from Independent Third Parties.

## AGGREGATE ANNUAL CAPS OF THE RENEWAL SERVICE AGREEMENT

The Directors estimate that the Aggregate Annual Caps of the Service Agreement for each of the three years ending 31 December 2018 are as follows:

|                             | <b>Year ending<br/>31 December<br/>2016<br/>(RMB)</b> | <b>Year ending<br/>31 December<br/>2017<br/>(RMB)</b> | <b>Year ending<br/>31 December<br/>2018<br/>(RMB)</b> |
|-----------------------------|---|---|---|
| Technical maintenance fees  | 3,724,729   | 4,097,202   | 4,506,923   |
| After-sales service charges | <u>17,382,071</u>                                     | <u>19,120,278</u>                                     | <u>21,032,305</u>                                     |
| Total:                      | <u>21,106,800</u>                                     | <u>23,217,480</u>                                     | <u>25,539,228</u>                                     |

The Aggregate Annual Caps have been determined based on:

- (i) historical monthly incoming call volume, monthly online reported volume and monthly hardware account reported volumes of NetDragon (Fujian);
- (ii) internal estimated monthly incoming call volumes, monthly online reported volumes and monthly hardware account reported volumes of NetDragon (Fujian) for each of the three years ending 31 December 2018; and
- (iii) the estimated services fees payable to Fuzhou Tianliang for the three years ending 31 December 2018.

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

## HISTORICAL TRANSACTION VALUE

For each of the three years ended 31 December 2012, 31 December 2013 and 31 December 2014, the total sum of service fee paid by the Group to NetDragon (Fujian) under the Existing Service Agreement amounted to RMB14,800,000, RMB16,162,000 and RMB11,860,000 respectively (equivalent to approximately HK\$17,700,000, HK\$19,300,000 and HK\$14,200,000).

## **REASONS AND BENEFITS FOR ENTERING INTO THE RENEWAL SERVICE AGREEMENT**

Due to the Group's staff remuneration policy, the Group pays a higher compensation to each staff member in the Group than that payable by Fuzhou Tianliang to its staff members. The outsourcing of such labour intensive tasks to Fuzhou Tianliang would therefore serve cost-saving purposes by means of effectively limiting the number of the Group's staff and equipment cost. Moreover, due to the relatively low quality of such services available in Fuzhou City, the Directors decided to outsource such services to Fuzhou Tianliang, which is specialised in this area of services and familiar with NetDragon (Fujian)'s operations.

The terms of the Renewal Service Agreement were determined after arm's length negotiations between the parties and with reference to (i) the service fee charged of comparable services; (ii) the previous service fee paid by the Group under the Existing Service Agreement; and (iii) the estimated service fee payable to Fuzhou Tianliang.

Based on the above reasons, the Directors (including the independent non-executive Directors) consider that the Renewal Service Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms (or terms no less favourable to the Group than terms available to independent third parties) and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **INFORMATION OF THE GROUP, NETDRAGON (FUJIAN) AND FUZHOU TIANLIANG**

The Group is principally engaged in online game development, including game design, programming and graphics, and online game operation.

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

Fuzhou Tianliang is a company established in the PRC, whose principal businesses include provisions of computer system repair and maintenance service and after-sales service.

## **IMPLICATIONS UNDER THE LISTING RULES**

Fuzhou Tianliang is wholly owned by Miss Lin. As disclosed in the announcement of the Company dated 27 April 2009, Miss Lin confirmed that she is acting under the instructions of the Controlling Shareholders regarding her interests in Fuzhou Tianliang and therefore, she is deemed to be a connected person to the Company under the Listing Rules. The transaction contemplated under the Renewal Service Agreement constitutes continuing connected transaction on the part of the Company under Chapter 14A the Listing Rules.

Given that the applicable percentage ratios in relation to the Annual Cap fall within the threshold prescribed in Rule 14A.76(2) of the Listing Rules, the entering into the Renewal Service Agreement is only subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules and is exempt from independent shareholders' approval requirement.

Liu Dejian, Liu Luyuan and Zheng Hui are Directors and Controlling Shareholders and are interested in 96.05%, 2.11% and 0.70% of the registered capital of NetDragon (Fujian) respectively. Miss Lin confirmed that she is acting under the instructions of the Controlling Shareholders regarding her interests in Fuzhou Tianliang. Accordingly, Liu Dejian, Liu Luyuan and Zheng Hui have abstained from voting on the Board resolutions in relation to the entering into of the Renewal Service Agreement.

## **DEFINITIONS**

|                            |   |
|----------------------------|---|
| “Annual Cap”               | the annual cap for the transactions contemplated under the Renewal Service Agreement  |
| “Board”                    | the board of Directors  |
| “Company”                  | NetDragon Websoft Inc., an exempted company incorporated in the Cayman Islands with limited liability, and the issued shares of which are listed on the Stock Exchange  |
| “Controlling Shareholders” | NetDragon (Fujian)'s controlling shareholders (having the meaning ascribed thereto in the Listing Rules), being DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan, Eagle World International Inc. and Flowson Company Limited |

|                              |   |
|------------------------------|---|
| “Director(s)”                | the director(s) of the Company  |
| “Existing Service Agreement” | the service agreement dated 28 December 2012 entered into between NetDragon (Fujian) and Fuzhou Tianliang pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2013 to 31 December 2015 details of which are set forth in the announcement of the Company dated 28 December 2012 |
| “Fuzhou Tianliang”           | Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司), a company established in the PRC with limited liability on 19 April 2006, which is currently wholly owned by Miss Lin   |
| “Group”                      | The Company, its subsidiaries and such entities which are considered as subsidiaries of the Company under the applicable accounting standard and policy   |
| “HK\$”                       | Hong Kong dollars, the lawful currency of Hong Kong   |
| “Hong Kong”                  | the Hong Kong Special Administrative Region of the PRC  |
| “Listing Rules”              | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Miss Lin”                   | 林航 (Lin Hang), being the sole shareholder of Fuzhou Tianliang   |
| “NetDragon (Fujian)”         | Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999, and which is one of the Company’s subsidiaries pursuant to the structure contracts entered into between NetDragon (Fujian) and the Company’s subsidiaries and affiliates  |
| “Renewal Service Agreement”  | the new service agreement dated 31 December 2015 entered into between NetDragon (Fujian) and Fuzhou Tianliang in relation to the provision of Services to NetDragon (Fujian)  |
| “percentage ratios”          | has the meaning ascribed to it under the Listing Rules  |

|                  |  |
|------------------|--|
| “PRC”            | the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau, Special Administrative Region of the PRC and Taiwan) |
| “RMB”            | Renminbi, the lawful currency of the PRC   |
| “Services”       | provision of the computer system repair and maintenance service and after-sales service  |
| “Share(s)”       | the ordinary share(s) of US\$0.01 each in the share capital of the Company   |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited  |
| “Transactions”   | the transactions contemplated under the Renewal Service Agreement  |
| “%”              | per cent   |

*For the purpose of this announcement, conversion of RMB into Hong Kong dollars is calculated at the conversion rate of HK\$1.00 to RMB0.83778. This conversion rate is for purpose of illustration only and do not constitute a representation that any amounts have been, could have been, or may be, converted at this or any other rates at all.*

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

Hong Kong, 31 December 2015

*As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Liu Dejian, Mr. Liu Luyuan, Mr. Zheng Hui, Mr. Chen Hongzhan and Dr. Leung Lim Kin Simon; 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.*