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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
CHERRYPICKS ALPHA HOLDINGS LIMITED AND
CHERRYPICKS ALPHA RESOURCES LIMITED
INVOLVING ISSUANCE OF
CONSIDERATION SHARES UNDER GENERAL MANDATE
AND DEEMED DISPOSAL**

THE SHARE PURCHASE AGREEMENT

On 22 April 2016 (after trading hours), the Purchasers, wholly-owned subsidiaries of the Company, entered into the Share Purchase Agreement with the Vendors. Pursuant to the Share Purchase Agreement, (i) the First Vendor conditionally agreed to sell, and the First Purchaser conditionally agreed to purchase, the First Target Shares; and (ii) the First Target Company conditionally agreed to sell, and the Second Purchaser conditionally agreed to purchase, the Second Target Shares.

Consideration

The consideration for the sale and purchase of the First Target Shares shall be satisfied by (i) an amount of US\$1,500,000 to be satisfied in cash; and (ii) the allotment and issue of the First Incentive Shares by the First Purchaser to the First Vendor.

The consideration for the sale and purchase of the Second Target Shares shall be US\$3,160,000, to be satisfied in full by the Second Purchaser by procuring the Company to issue the Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the General Mandate.

Unconditional Investments

Pursuant to the Share Purchase Agreement, the Company shall procure further investments and/or provide advances to the First Purchaser in an aggregate amount of US\$1,410,000 for the purposes of repayment of outstanding loans of the Target Group, of which (i) an amount up to US\$910,000 shall be made at or immediately after Completion; and (ii) an amount of US\$500,000 to be made in such manner and at such time to be determined and agreed by the First Purchaser and the First Vendor.

Further Investments

Pursuant to the Share Purchase Agreement, the Company shall procure further investments in the First Purchaser in an aggregate amount of US\$10,470,000, of which (i) an amount up to US\$1,250,000 to be invested in such manner and at such time to be determined and agreed by the First Purchaser and the First Vendor; and (ii) an amount up to US\$9,220,000 (based on a maximum investment amount of US\$10,000,000 to be made by the Company and the First Vendor in proportion to their respective shareholdings in the First Purchaser immediately after the issue of the First Incentive Shares at Completion) to be invested by way of subscribing for convertible securities of the First Purchaser, in such manner and at such time to be agreed by the First Purchaser and the First Vendor.

Second Incentive Shares

Pursuant to the Share Purchase Agreement, the First Purchaser agrees to issue and allot the Second Incentive Shares to the First Vendor and the Participating Employees upon occurrence of (i) the closing of the QIPO within five years from the date of the Share Purchase Agreement; or (ii) the Change in Control, whichever is earlier.

LISTING RULES IMPLICATIONS

The issue of the First Incentive Shares and the Second Incentive Shares pursuant to the Share Purchase Agreement will result in a dilution of the shareholding interest of the Company in the First Purchaser from 100% to 75.4%. Under the Listing Rules, such dilution is regarded as a deemed disposal by the Company of its shareholding interest in the First Purchaser.

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

THE SHARE PURCHASE AGREEMENT

On 22 April 2016 (after trading hours), the Purchasers, wholly-owned subsidiaries of the Company, entered into the Share Purchase Agreement with the Vendors. Pursuant to the Share Purchase Agreement, (i) the First Vendor conditionally agreed to sell, and the First Purchaser conditionally agreed to purchase, the First Target Shares; and (ii) the First Target Company conditionally agreed to sell, and the Second Purchaser conditionally agreed to purchase, the Second Target Shares, upon and subject to the terms and conditions set out in the Share Purchase Agreement.

The principal terms of the Share Purchase Agreement are set out below.

Date

22 April 2016 (after trading hours)

Parties

- (i) Cherrypicks International Holdings Limited (a wholly-owned subsidiary of the Company), the purchaser of the First Target Shares;
- (ii) NetDragon Websoft Inc. (a wholly-owned subsidiary of the Company), the purchaser of the Second Target Shares;
- (iii) Chiu Tsz Kiu Jason Felix, the vendor of the First Target Shares; and
- (iv) Cherrypicks Alpha Holdings Limited, the vendor of the Second Target Shares

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendors are Independent Third Parties. As at the date of this announcement, the Second Target Company is wholly-owned by the First Target Company, which in turn is wholly-owned by the First Vendor. The First Vendor is a director of several insignificant subsidiaries of the Company, and therefore the First Vendor and the First Target Company are not regarded as connected persons of the Company pursuant to the Listing Rules.

Assets to be acquired

Pursuant to the Share Purchase Agreement, the First Vendor conditionally agreed to sell, and the First Purchaser conditionally agreed to purchase, the First Target Shares, representing the entire issued share capital of the First Target Company.

As at the date of this announcement, the First Target Company is the holding company of the Target Subsidiaries and the Excluded Group Companies. As contemplated under the Share Purchase Agreement, the First Target Company will undergo and complete the Reorganisation before Completion, after which the Excluded Group Companies will be disposed of by the First Target Company.

In addition, pursuant to the Share Purchase Agreement, the First Target Company conditionally agreed to sell, and the Second Purchaser conditionally agreed to purchase, the Second Target Shares, representing the entire issued share capital of the Second Target Company. The Second Target Company does not have any subsidiary or hold any investment in any entity.

Consideration

The consideration for the sale and purchase of the First Target Shares shall be satisfied in the following manner:

- (a) an amount of US\$1,500,000 to be satisfied in cash by the First Purchaser within three business days after Completion; and
- (b) the allotment and issue of the First Incentive Shares by the First Purchaser to the First Vendor credited as fully-paid at Completion.

The consideration for the sale and purchase of the Second Target Shares shall be US\$3,160,000, to be satisfied in full by the Second Purchaser by procuring the Company to issue the Consideration Shares to the First Vendor and the Employee Allottees (as the First Target Company directs). Such Consideration Shares shall upon allotment and issue, to be deposited with the Trustee at Completion and vested to the First Vendor and the Employee Allottees, subject to and in accordance with vesting schedule and conditions as set out in the Trust Document.

Unconditional Investments

Pursuant to the Share Purchase Agreement and subject to Completion and compliance with applicable laws, rules and regulations, the Company shall procure further investments and/or provide advances to the First Purchaser in an aggregate amount of US\$1,410,000 for the purposes of repayment of outstanding loans of the Target Group, of which (i) an amount up to US\$910,000 shall be made at or immediately after Completion; and (ii) an amount of US\$500,000 to be made in such manner and at such time to be determined and agreed by the First Purchaser and the First Vendor.

Further Investments

Pursuant to the Share Purchase Agreement and subject to Completion and compliance with applicable laws, rules and regulations, the Company shall procure further investments in the First Purchaser in an aggregate amount of US\$10,470,000, of which (i) an amount up to US\$1,250,000 to be invested in such manner and at such time to be determined and agreed by the First Purchaser and the First Vendor; and (ii) an amount up to US\$9,220,000 (based on a maximum investment amount of US\$10,000,000 to be made by the Company and the First Vendor in proportion to their respective shareholdings in the First Purchaser immediately after the issue of the First Incentive Shares at Completion) to be invested by way of subscribing for convertible securities of the First Purchaser, in such manner and at such time to be agreed by the First Purchaser and the First Vendor.

The Consideration and the further investments as set out under the paragraphs headed “Unconditional Investments” and “Further Investments” above (“**Further Investments**”) were determined after arm’s length negotiations between the Group and the Vendors after taking into account (i) the technology and operation performance of Target Group; and (ii) the benefits of the Acquisition to the Group as detailed in the paragraph headed “Reasons for and benefits of the entering into of the Share Purchase Agreement” in this announcement.

Consideration Shares

The Consideration Shares will be allotted and issued at the Issue Price of HK\$22.6623 per Consideration Share, which represents:

- (a) the average closing price of HK\$22.6623 per Share as quoted on the Stock Exchange in the last 30 consecutive trading days immediately prior to the date of the Share Purchase Agreement;
- (b) a discount of approximately 12.33% of the closing price of HK\$25.85 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 12.67% of the average closing price of approximately HK\$25.95 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 11.82% of the closing price of approximately HK\$25.70 per Share as quoted on the Stock Exchange on the date of the Share Purchase Agreement.

The total number of the Consideration Shares represents approximately 0.22% of the issued share capital of the Company as at the date of this announcement and represents approximately 0.22% 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 99,335,482 Shares (representing 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the AGM). The Consideration Shares when allotted and issued, will utilise approximately 1.09% of the General Mandate. As at the date of this announcement, the General Mandate has not been previously utilised.

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 First Vendor and the Employee Allottees (being the nominees as directed by the First Target Company) in accordance with the vesting schedule under the Share Purchase Agreement and the Trust Document. Upon Completion, the Company will allot and issue the Consideration Shares and settle the Consideration Shares on the Trust formed under the Trust Document. The Consideration Shares will be held in a securities account in the name of the Trustee.

Subject to the vesting conditions under the Share Purchase Agreement, 638,315 Consideration Shares, being approximately 58.69% of the Consideration Shares shall be vested with the First Vendor, all of which shall be vested absolutely with the First Vendor at the fifth anniversary of the Completion Date.

In addition, subject to the vesting conditions under the Share Purchase Agreement, 449,306 Consideration Shares, being approximately 41.31% of the Consideration Shares shall be vested with the Employee Allottees, among which 10%, 30% and 60% of the entitlement shall be vested to the Employee Allottees at the first, third and fifth anniversary of the Completion Date, respectively.

In the event that the Company disposes of a substantial portion of the assets of the Company or any of its subsidiaries, the consideration of which exceeds US\$1,500,000,000 (or equivalent), any unvested Consideration Shares shall be vested immediately to the First Vendor and the Employee Allottees on the closing date of such disposal.

Moreover, conditional upon that the transactions contemplated under the Share Purchase Agreement (after having taken into account the Deemed Dividend Interest, if any, to be made) would not require the Company to publish any additional announcement (other than this announcement) pursuant to any applicable laws, rules and regulations (including but not limited to the Listing Rules) or to obtain any applicable consent/approval (including but not limited to any consent/approval from the Stock Exchange, the Securities and Futures Commission and/or the Shareholders), for so long as there is any unvested Consideration Share remaining outstanding, during the period of five years from the Completion Date, if and whenever the Company shall pay or make any Special Dividend in cash to the Shareholders, the First Vendor and each Employee Allottee shall be entitled to be paid for the sum equivalent to the dividend interest in respect of that Special Dividend (the “**Deemed Dividend Interest**”) for his/her unvested Consideration Shares as if these unvested Consideration Shares had been vested.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Employee Allottees to whom the Consideration Shares are to be vested are Independent Third Parties as at the date of this announcement.

CONDITIONS PRECEDENT

Completion of the Acquisition is conditional upon the satisfaction or waiver (as the case may be) of all of the following conditions:

- (a) the completion to the satisfaction of the Purchasers of the results of due diligence reviews on the Target Group;
- (b) all authorisations and agreements (if any) which are required for the entering into or the performance of obligations under the Share Purchase Agreement by the Vendors 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 Share Purchase Agreement having been made;
- (c) the Purchasers being satisfied that there not having occurred, since the date of the Share Purchase Agreement any material adverse change on the Target Group;

- (d) the warranties given by the Vendors remaining true and accurate in all material respects and not misleading in any material respect;
- (e) the delivery of the business plan or business strategy of the Target Group in a form satisfactory to the Purchasers;
- (f) the completion of the Reorganisation;
- (g) 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 Target Shares or completion of the Share Purchase Agreement and the transactions contemplated thereunder;
- (h) the waiver of the shareholder's loan in an amount of HK\$15,687,184 as at 31 December 2015 granted by the First Vendor to the Target Group, and the repayment or waiver of all other personal loan and/or the release of all guarantee made by the First Vendor for benefit of the Target Group, except for the personal guarantee made by the First Vendor for the loan granted from an independent third party to a member of the Target Group, for which personal guarantee shall be released upon loan repayment by the relevant member of the Target Group;
- (i) the waiver of the intercompany balances owed by the Target Group to the Excluded Group Companies or otherwise arising from the Reorganisation;
- (j) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares; and
- (k) the parties having agreed on the form of the Trust Document to be entered into between the Company and the Trustee at Completion.

If the conditions above have not been fulfilled (or as the case may be, waived) on or before the Long Stop Date, either the Vendors or the Purchasers may terminate the Share Purchase Agreement, upon which no parties to the Share Purchase Agreement shall have any claims against the other party, save in respect of any prior breaches of the Share Purchase 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 on the Completion Date.

Neither the Vendors nor the Purchasers shall be obliged to complete the sale and purchase of any of the Target Shares unless the sale and purchase of the First Target Shares and the sale and purchase of the Second Target Shares are completed contemporaneously.

INCENTIVE SHARES

Pursuant to the Share Purchase Agreement, the First Purchaser agrees to issue and allot the Incentive Shares in the following manner:

- (a) the issue and allotment of the First Incentive Shares to the First Vendor at Completion to satisfy part of the Consideration as mentioned above; and
- (b) the issue and allotment of the Second Incentive Shares to the First Vendor and the Participating Employees upon occurrence of the following:
 - (i) the closing of the QIPO within five years from the date of the Share Purchase Agreement; or
 - (ii) the Change in Control,

whichever is earlier, provided that if the closing of the QIPO does not occur on or before the fifth anniversary of the date of the Share Purchase Agreement, the Second Incentive Shares shall not be issued and allotted to the First Vendor and/or the Participating Employees, unless otherwise agreed in writing by the First Vendor and the First Purchaser.

The number of Second Incentive Shares shall be determined with reference to, inter alia, the pre-offering market capitalisation of the First Purchaser for the QIPO and the return on the initial investment amount of the Company in the Cherrypicks Group, provided that the Second Incentive Shares in aggregate with the First Incentive Shares shall not in any event exceed 24.6% of the enlarged issued share capital of the First Purchaser following the issue and allotment of all the Incentive Shares.

The First Purchaser will continue to be a subsidiary of the Company after the allotment and issue of all Incentive Shares.

The Incentive Shares shall be allocated to the Participating Employees proposed by the First Vendor based on their performance and/or contribution to the Cherrypicks Group, and the allocation of Incentive Shares to the Participating Employees proposed by the First Vendor shall be approved in writing by members of the Share Award Committee including at least one member appointed by the First Purchaser.

The Participating Employees shall not have any legal rights and/or titles on the Incentive Shares allocated to them until the shares transferred to them from the First Vendor or issued to them by the First Purchaser on the condition that the Participating Employee remains as an employee of the Cherrypicks Group or the Group (as the case may be) immediately prior to the closing of the QIPO and in respect of the Second Incentive Shares, subject to the Repurchase Right of the First Purchaser set out below. The First Incentive Shares allocated to the Participating Employees shall only be transferred to the Participating Employees by the First Vendor on the date of closing of the QIPO or the date of Change in Control, whichever is earlier.

The First Vendor undertakes, and if applicable, shall procure the Participating Employees to undertake, not to sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Incentive Shares issued/transferred to him/her prior to the closing of the QIPO, unless with the First Purchaser's prior written consent. Such non-disposal restriction shall no longer apply after the Company, whether directly or indirectly, ceases to hold any shareholding interest in the Cherrypicks Group.

The First Purchaser shall have the right (the “**Repurchase Right**”), exercisable at the sole option of the First Purchaser upon the occurrence of any of the Repurchase Events to repurchase from the First Vendor and/or the Participating Employees (as the case may be) some or all (as determined by the First Purchaser) of the Second Incentive Shares held by the First Vendor and/or the Participating Employees (as the case may be) at nil consideration or the lowest repurchase price as permitted under the applicable laws, rules and regulations (the “**Repurchase Price**”). The First Purchaser may assign the Repurchase Right to one or more of its Affiliates. The Repurchase Right shall terminate upon the closing of the QIPO or the Change in Control, whichever is earlier.

Following the Completion Date and the issue and allotment of the Second Incentive Shares by the First Purchaser, the First Purchaser shall be entitled to exercise the Repurchase Right at any time after the occurrence of any of the following (each a “**Repurchase Event**”):

- (a) the First Vendor or the relevant Participating Employee (as the case may be) ceases to be an employee of the Cherrypicks Group or the Group (as the case may be) voluntarily or as a result of the employment terminated by lawful summary dismissal prior to the closing of QIPO; or
- (b) the closing of QIPO has not occurred within a reasonably period of time (such period of time to be determined and agreed by the First Vendor and the First Purchaser) from the date the First Purchaser issued and allotted the Second Incentive Shares to the First Vendor and/or the Participating Employees.

The issue of the First Incentive Shares at Completion will result in a dilution of the shareholding interest of the Company in the First Purchaser from 100% to 92.2%; and the issue of the Second Incentive Shares will further dilute the shareholding interest of the Company in the First Purchaser to 75.4%. Under the Listing Rules, such dilution is regarded as a deemed disposal by the Company of shareholding interest in the First Purchaser. After the issue of all the Incentive Shares and based on the current shareholding structure of the First Purchaser, the First Purchaser will continue to be a subsidiary of the Company.

LICENSING ARRANGEMENTS

Pursuant to the Share Purchase Agreement, it is contemplated that subject to compliance with applicable laws, rules and regulations, the Cherrypicks Group on one hand and the Group (excluding Cherrypicks Group) (the “**Licensee Group**”) on the other shall, after Completion, enter into a licensing agreement, pursuant to which the Cherrypicks Group shall grant a licence to the Licensee Group to use the Licensed Technologies after Completion, for a licence fee of US\$0.05 per Licensed Technology per Unique User for a term of three years from the date of Completion. The licence fee shall be payable by the Licensee Group to the Cherrypicks Group on (i) the date of closing of the QIPO; or (ii) the date on which the Company, whether directly or indirectly, ceases to hold any shareholding interest in the Cherrypicks Group, whichever is earlier.

Moreover, pursuant to the Share Purchase Agreement, it is contemplated that subject to compliance with applicable laws, rules and regulations, the Second Purchaser shall procure the Second Target Company to grant a non-exclusive, non-transferable, royalty-free licence to the Cherrypicks Group to use the AR Technologies for a term of five years from the date of Completion.

INFORMATION OF THE TARGET GROUP

First Target Group

The First Target Company is a company incorporated in the British Virgin Islands with limited liability, and the holding company of the Target Subsidiaries. The First Target Group is a technology leader in smart infrastructure (hardware, software and firmware) for proximity detection and indoor positioning. Its signature product, starbeacon, is an infrastructure platform with SDK and API to support Smart City deployment and solutions for shopping malls, retail shops, airports and large indoor venues for proximity detection, indoor positioning, navigation and big data collection. The starbeacon infrastructure is a differentiation for the Cherrypicks Group's regional shopping loyalty community, SHOPPO. As at the date of this announcement, the First Target Group possesses over ten patent applications and technology IPs related to starbeacon.

Based on the management account of the Target Group provided by the Vendors, the financial information of the First Target Group for the two years ended 31 December 2014 and 2015 is as follows:

	For the year ended 31 December 2015	For the year ended 31 December 2014
	<i>HK\$</i>	<i>HK\$</i>
Net (loss) before taxation	(3,148,000)	(775,000)
Net (loss) after taxation	(3,148,000)	(775,000)

Based on the management account of the Target Group provided by the Vendors, the unaudited total asset value and net liability value of the First Target Group as at 31 December 2015 are approximately HK\$637,000 and HK\$(3,904,000), respectively.

Second Target Company

The Second Target Company is a company incorporated in Hong Kong with limited liability and is wholly-owned by the First Target Company as at the date of this announcement. The Second Target Company is a technology leader in Augmented Reality (AR). Its proven and high quality AR engine provides computer vision as well as face recognition and tracking, emotion detection and retargeting technologies. It has supported many award-winning AR mobile applications such as iButterfly, HSBC's 150 Year Commemorative Bank Note and English Galaxy. The AR engine can support scalable deployment of many innovative services in online education,

gaming, O2O shopping and entertainment. The four categories of AR technologies include (i) image processing and recognition, (ii) tracking and optical flow, (iii) face recognition and character recognition, and (iv) rendering, morphing, playback and other associated technologies.

Based on the management account of the Target Group provided by the Vendors, the financial information of the Second Target Company for the two years ended 31 December 2014 and 2015 is as follows:

	For the year ended 31 December 2015	For the year ended 31 December 2014
	<i>HK\$</i>	<i>HK\$</i>
Net (loss) before taxation	(6,203,000)	(3,111,000)
Net (loss) after taxation	(6,203,000)	(3,111,000)

Based on the management account of the Target Group provided by the Vendors, the unaudited total asset value and net asset value of the Second Target Company as at 31 December 2015 are approximately HK\$1,224,000 and HK\$2,345,000, respectively.

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Company. Therefore, the financial results of the Target Group will be consolidated into the Group's financial statement.

INFORMATION OF THE FIRST PURCHASER

The First Purchaser is principally engaged in mobile solution business and building shopping loyalty communities, SHOPPO, and applying leading-edge technologies in Augmented Reality and Proximity Detection and Indoor Positioning. It has developed popular Online-to-Offline (O2O) mobile platforms such as SHOPPO and iButterfly.

Based on the management account of the First Purchaser and its subsidiaries, the financial information of the First Purchaser and its subsidiaries for the two years ended 31 December 2014 and 2015 is as follows:

	For the year ended 31 December 2015	For the year ended 31 December 2014
	<i>HK\$</i>	<i>HK\$</i>
Net (loss)/profit before taxation	(35,939,000)	25,780,000
Net (loss)/profit after taxation	(35,571,000)	21,823,000

Based on the management account of the First Purchaser and its subsidiaries, the unaudited total asset value and net liability value of the First Purchaser and its subsidiaries as at 31 December 2015 are approximately HK\$24,058,000 and HK\$(12,360,000), respectively. Upon Completion, the First Target Group will become wholly-owned subsidiaries of the First Purchaser. Therefore, the financial results of the First Target Group will be consolidated into the First Purchaser's financial statement.

As at the date of this announcement, the First Purchaser is a wholly-owned subsidiary of the Company. Upon completion of the issue of all Incentive Shares and based on the current shareholding structure of the First Purchaser, the shareholding interest of the Company in the First Purchaser will be diluted from 100% to 75.4%, and the First Purchaser will remain a non-wholly owned subsidiary of the Company. As such, the results of operations and financial position of the First Purchaser will continue to be recorded in the Group's consolidated financial statements.

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 all Consideration Shares have been vested):

Shareholders	As at the date of this announcement		Immediately after 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)	
	<i>Number of Shares</i>	<i>Approximate percentage of shareholdings</i>	<i>Number of Shares</i>	<i>Approximate percentage of shareholdings</i>
<i>Substantial Shareholders and Directors</i>				
DJM Holding Ltd. ⁽¹⁾	191,078,100	38.76%	191,078,100	38.68%
Fitter Property Inc. ⁽²⁾	19,021,700	3.86%	19,021,700	3.85%
Eagle World International Inc. ⁽³⁾	13,918,819	2.82%	13,918,819	2.82%
IDG Group	78,333,320	15.89%	78,333,320	15.86%
Liu Dejian ⁽⁴⁾	1,995,819	0.40%	1,995,819	0.40%
Liu Luyuan ⁽⁵⁾	26,541,819	5.38%	26,541,819	5.37%
Zheng Hui ⁽⁶⁾	1,411,800	0.29%	1,411,800	0.29%
Chen Hongzhan	11,111,819	2.26%	11,111,819	2.24%
Chao Guowei, Charles	579,500	0.12%	579,500	0.12%
Lee Kwan Hung	718,519	0.15%	718,519	0.15%
Liu Sai Keung, Thomas	117,019	0.02%	117,019	0.02%
<i>Other Shareholders</i>				
First Vendor	1,838,343 ⁽⁷⁾	0.37%	2,476,658	0.50%
Employee Allottees	772,314 ⁽⁷⁾	0.16%	1,221,620	0.25%
Other Public Shareholders	145,532,304	29.52%	145,532,304	29.45%
Total	<u>492,971,195</u>	<u>100%</u>	<u>494,058,816</u>	<u>100%</u>

Notes:

- DJM Holding Ltd. is owned as to 95.36% and 4.64% by Liu Dejian and Zheng Hui, respectively.
- Fitter Property Inc. is wholly-owned by Zheng Hui.

3. Eagle World International Inc. is wholly-owned by Flowson Company Limited, in which Zheng Hui owns the voting rights in respect of all the issued shares.
4. In addition to his indirect shareholding interest in the Company as disclosed in note 1 above, Liu Dejian is also a beneficial owner of 1,798,800 Shares and a beneficiary of a trust of 197,019 Shares.
5. Liu Luyuan is a beneficiary of certain trust holding in aggregate 26,541,819 Shares.
6. In addition to his indirect shareholding interest in the Company as disclosed in notes 1, 2 and 3 above, Zheng Hui is also a beneficial owner of 1,411,800 Shares.
7. These Shares are consideration shares allotted to the First Vendor and certain Employee Allottees pursuant to 2014 Share Purchase Agreement.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE SHARE PURCHASE AGREEMENT

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

The First Target Group and the Second Target Company possess highly relevant, world-class technology portfolio in Augmented Reality (AR) and smart location sensing platform (starbeacon) for the entire Group including the First Purchaser acquired by the Group pursuant to the 2014 Share Purchase Agreement.

The technology portfolio from the First Target Group in smart location sensing platform (starbeacon) will streamline the deployment of the Company's resources as Cherrypicks Group expands its presence in online education and O2O. Starbeacon also underpins a differentiating infrastructure in building out SHOPPO, cherrypicks O2O shopping loyalty community platform business in the Asia-Pacific region.

The technology portfolio from the Second Target Company in AR will substantially strengthen and grow the core Virtual Reality and Augmented Reality (VRAR) product offering of the entire Group including its subsidiaries such as Fujian Huayu Future Education Technology Limited, Promethean World Limited, Cherrypicks Group's online education and O2O platform. It will enable the Group to better tap into the vast market potential of global VRAR market.

The Directors (including the independent non-executive Directors) consider that the terms of the Share Purchase Agreement, including but not limited to the Consideration and the Further Investments, are on 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 respect of the Acquisition and the Deemed Disposal under the Share Purchase Agreement are less than 5%, and Consideration Shares will be allotted and issued by the Company, the Share Purchase Agreement constitutes a share transaction of the Company and is 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:

“2014 Share Purchase Agreement”	the agreement dated 3 June 2014 entered into between the First Vendor as vendor and the Second Purchaser as purchaser in respect of the sale and purchase of the entire issued share capital of the First Purchaser, details of which were disclosed in the announcement of the Company dated 3 June 2014
“Acquisition”	the acquisition of the entire issued share capital of the Target Companies from the Vendors by the Purchasers pursuant to the terms and conditions of the Share Purchase Agreement
“Affiliate”	in relation to any person, a subsidiary of that person or a holding company of that person or any other subsidiary of that holding company
“AGM”	the annual general meeting of the Company convened and held on 21 May 2015
“AR Technologies”	the technologies developed or are being developed in portfolio of AR technologies by the Second Target Company
“associate(s)”	having the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Change in Control”	change in control occurs when the Company ceases, directly or indirectly, (i) to Control the Cherrypicks Group and (ii) to be the largest shareholder of the First Purchaser

“Cherrypicks Group”	the First Purchaser, its subsidiaries and its associated companies (including the First Target Group) from time to time after Completion
“Company”	NetDragon Websoft Inc., an exempted company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Target Shares pursuant to the terms of the Share Purchase Agreement
“Completion Date”	the date falling three business days after the fulfilment (or waiver) of the conditions set out in the Share Purchase Agreement or such other date as the Vendors and the Purchasers may agree
“connected person(s)”	having the meaning ascribed thereto in the Listing Rules
“Consideration”	the total consideration payable by the Purchasers in accordance with the Share Purchase Agreement
“Consideration Shares”	1,087,621 new Shares credited as fully paid to be allotted and issued by the Company at the Issue Price to satisfy in full the consideration for the sale and purchase of the Second Target Shares
“Control”	unless the context otherwise requires, control shall be deemed to mean a holding, or aggregate holdings, of 30% or more of the voting rights of a company, irrespective of whether that holding or holdings gives de facto control
“Deemed Disposal”	the issue of the Incentive Shares by the First Purchaser pursuant to the Share Purchase Agreement
“Director(s)”	director(s) of the Company
“Employee Allottees”	the employees of the Second Target Company and the Cherrypicks Group to whom part of the Consideration Shares will be vested according to the vesting conditions and schedule as stated in the Share Purchase Agreement and the Trust Document

“Excluded Group Companies”	three companies which are the subsidiaries of the First Target Company and will be disposed of by the First Target Company after completion of the Reorganisation
“First Incentive Shares”	such number of Purchaser Shares, representing 7.8% of the shareholding interest of the First Purchaser as at Completion as enlarged by the allotment and issue of the First Incentive Shares, to be allotted and issued by the First Purchaser to the First Vendor credited as fully paid on Completion
“First Purchaser”	Cherrypicks International Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, a direct wholly-owned subsidiary of the Second Purchaser and an indirect wholly-owned subsidiary of the Company
“First Target Company”	Cherrypicks Alpha Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by the First Vendor and the 100% holding company of the Second Target Company as at the date of this announcement
“First Target Group”	the First Target Company and the Target Subsidiaries
“First Target Shares”	one share in the First Target Company, legally and beneficially owned by the First Vendor, representing 100% of the issued share capital of the First Target Company
“First Vendor”	Chiu Tsz Kiu Jason Felix, the vendor of the First Target Shares
“General Mandate”	the general mandate to allot and issue the Shares representing 20% of the issued share capital of the Company as at 21 May 2015 granted to the Directors by the Shareholders at the AGM
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Incentive Shares”	the First Incentive Shares and the Second Incentive Shares

“Independent Third Party(ies)”	party(ies) independent of the Company and its connected persons in accordance with the Listing Rules
“insignificant subsidiary(ies)”	having the meaning ascribed thereto in the Listing Rules
“Issue Price”	HK\$22.6623, being the issue price per Consideration Share under the Share Purchase Agreement
“Last Trading Day”	21 April 2016, being the last trading day immediately before the entering into the Share Purchase Agreement
“Licensed Technologies”	the presence and proximity detection and indoor navigation technologies and interactive display technologies, and related intellectual properties, to the extent such technologies have been developed, launched and deployed by the First Target Group prior to the Completion Date and are owned by the First Target Group as at the Completion Date
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	20 May 2016 (or such other date as may be agreed between the Purchasers and the Vendors), being the last day by which the conditions of the Share Purchase Agreement shall be fulfilled (or waived)
“ND Aggregate Investment”	an amount of up to US\$45,100,000 which is the aggregate investment by the Company and its subsidiaries in the Cherrypicks Group
“Participating Employees”	employees of the Cherrypicks Group (in respect of both of the First Incentive Shares and the Second Incentive Shares) and employees of the Group (in respect of the Second Incentive Shares only) who will contribute or have contributed to the Cherrypicks Group, from time to time determined by the Share Award Committee to participate in the award of the Incentive Shares
“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

“Purchaser Shares”	ordinary shares of US\$1 each in the share capital of the First Purchaser
“Purchasers”	the First Purchaser and the Second Purchaser
“QIPO”	a public offering of the ordinary shares of the First Purchaser or any other group company of the First Purchaser within five years after the date of the Share Purchase Agreement in the U.S. or Hong Kong, with a minimum pre-offering market capitalisation which will result in the fully diluted pre-offering market value of the ordinary shares of the First Purchaser to be equal to or more than three times the ND Aggregate Investment, on a fully diluted basis including but not limited to the dilutive effect of the First Incentive Shares and the Second Incentive Shares, and net proceeds of an amount acceptable to the First Purchaser
“Reorganisation”	a reorganisation to be completed by the Vendors before the Completion Date, pursuant to which the Excluded Group Companies will be disposed of by the First Target Company
“Second Incentive Shares”	such number of the Purchaser Shares, in aggregate with the First Incentive Shares, representing a maximum of 24.6% of the enlarged issued share capital of the First Purchaser following the allotment and issue of all Incentive Shares, to be allotted and issued by the First Purchaser to the First Vendor and Participating Employees credited as fully paid in accordance with the terms and conditions set out in the Share Purchase Agreement
“Second Purchaser”	NetDragon Websoft Inc., a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company and the holding company of the First Purchaser
“Second Target Company”	Cherrypicks Alpha Resources Limited, a company incorporated in Hong Kong with limited liability and wholly owned by the First Target Company as at the date of this announcement

“Second Target Shares”	10,000 shares in the Second Target Company, legally and beneficially owned by the First Target Company, representing 100% of the issued share capital of the Second Target Company
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“Share Award Committee”	the committee constituted by two persons nominated by the First Purchaser and one person nominated by the First Vendor
“Share Purchase Agreement”	the share purchase agreement dated 22 April 2016 entered into between the Purchasers and the Vendors
“Shareholder(s)”	holder(s) of the Shares
“Special Dividend”	any cash dividend declared by the Board, other than any dividends declared for the financial years ending 31 December and any interim dividends declared for the six months ending 30 June
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	the First Target Company and the Second Target Company
“Target Group”	the First Target Group and the Second Target Company
“Target Shares”	the First Target Shares and the Second Target Shares
“Target Subsidiaries”	together, Cherrypicks Alpha Limited, Starberry Limited, Mango Wish Limited, Twinkling Stars Technology Limited, Flying Colors Technology Limited, Blink Technology Limited, Digital Meteorite Limited, Cherry Sound Limited, Cheer Berry Limited, Smart Showcase Limited, Keewee Technology Limited, Smart TLCD Limited, Iprophet Technology Limited, Smart Points Limited, Smart Picks Limited and Smart Kiosk Limited, the subsidiaries of the First Target Company
“Trust”	a trust set up by the Company in respect of the Consideration Shares to be held by the Trustee upon Completion

“Trust Document”	the trust document, in a form mutually agreed by the parties, to be entered into between the Company and the Trustee at Completion
“Trustee”	Bank of Communications Trustee Limited, the trustee of the Trust
“Unique User”	means a user, device or internet address that has used the Licensed Technology for more than 30 times in the form of any event, activity, feature, API, function call and any form of access on any module, application, platform, operating system or device
“Vendors”	the First Vendor and the First Target Company
“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.

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

Hong Kong, 22 April 2016

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Liu Dejian, Dr. Leung Lim Kin Simon, 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.