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NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

**DISCLOSEABLE TRANSACTION IN RELATION TO THE
FORMATION OF JOINT VENTURE COMPANY**

The Board is pleased to announce that on 25 January 2017 (after trading hours), NetDragon (Fujian), a deemed subsidiary of the Company entered into the JV Agreement with Fujian Local Industry Fund and Fujian Leading Enterprises Fund in respect of the formation of the JV Company.

The JV Company will be principally engaged in (including but not limited to) the application of information technologies concerning, among others, the healthcare and tourism industries and the development and application of VR and AR technology in the PRC, and seeks to expand the coverage of its products and services to “One Belt, One Road” countries.

Under the JV Agreement, the parties agreed that, the JV Company shall be established and shall be held as to 60% by NetDragon (Fujian), 30% by Fujian Local Industry Fund and 10% by Fujian Leading Enterprises Fund. The JV Company will be deemed a non wholly-owned subsidiary of the Company. The JV Company shall have a registered capital of RMB1,000,000,000 (equivalent to approximately HK\$1,130,000,000), which shall be contributed by NetDragon (Fujian), Fujian Local Industry Fund and Fujian Leading Enterprises Fund as to RMB600,000,000 in cash (equivalent to approximately HK\$679,000,000), RMB300,000,000 in cash (equivalent to approximately HK\$339,000,000) and RMB100,000,000 in cash (equivalent to approximately HK\$113,000,000) respectively.

Within 30 days of the establishment of the JV Company, NetDragon (Fujian) shall contribute RMB18,000,000 (equivalent to approximately HK\$20,400,000) (the “initial contribution”), while Fujian Local Industry Fund and Fujian Leading Enterprises Fund shall contribute RMB9,000,000 (equivalent to approximately HK\$10,200,000) and RMB3,000,000 (equivalent to approximately HK\$3,390,000) respectively within 5 days after NetDragon (Fujian) has made the initial contribution to the JV Company.

The remaining portion of the capital contribution of each party shall be made based on the actual capital requirement of the JV Company for business development and approved by the board of directors of the JV Company.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the JV Agreement in aggregate are more than 5% but less than 25%, the entering into of the JV Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

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THE JV AGREEMENT

Date: 25 January 2017

Parties: (1) NetDragon (Fujian)
(2) Fujian Local Industry Fund; and
(3) Fujian Leading Enterprises Fund

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, Fujian Local Industry Fund, Fujian Leading Enterprises Fund, their ultimate beneficial owner(s) and their general partners are Independent Third Parties. The JV Agreement is legally binding to the parties to the JV Agreement.

Business Objective of the JV Company

The JV Company will be principally engaged in (including but not limited to) the application of information technologies concerning, among others, the healthcare and tourism industries and the development and application of VR and AR technology in the PRC, and seeks to expand the coverage of its products and services to "One Belt, One Road" countries. The JV Company has a term of 30 years.

Shareholding Structure and Capital Contribution

Under the JV Agreement, the parties agreed that, the JV Company shall be established and shall be held as to 60% by NetDragon (Fujian), 30% by Fujian Local Industry Fund and 10% by Fujian Leading Enterprises Fund. The JV Company will be a deemed non wholly-owned subsidiary of the Company.

The JV Company shall have a registered capital of RMB1,000,000,000 (equivalent to approximately HK\$1,130,000,000), which shall be contributed by NetDragon (Fujian), Fujian Local Industry Fund and Fujian Leading Enterprises Fund as to RMB600,000,000 (equivalent to approximately HK\$679,000,000), RMB300,000,000 (equivalent to approximately HK\$339,000,000) and RMB100,000,000 (equivalent to approximately HK\$113,000,000) respectively.

Within 30 days of the establishment of the JV Company, NetDragon (Fujian) shall contribute RMB18,000,000 (equivalent to approximately HK\$20,400,000) (the “initial contribution”), while Fujian Local Industry Fund and Fujian Leading Enterprises Fund shall contribute RMB9,000,000 (equivalent to approximately HK\$10,200,000) and RMB3,000,000 (equivalent to approximately HK\$3,390,000) respectively within 5 days after NetDragon (Fujian) has made the initial contribution to the JV Company.

The remaining portion of the capital contribution of each party shall be made based on the actual capital requirement of the JV Company for business development and approved by the board of directors of the JV Company.

The amount of capital contributions was determined after arm’s length negotiation between the parties to the JV Agreement with reference to the initial capital requirement of the JV Company and the capital contribution intentions of the parties. It is contemplated that NetDragon (Fujian)’s capital investment will be funded by the internal resources of the Group.

Board Composition

The board of directors of the JV Company will consist of five directors, three of whom will be appointed by NetDragon (Fujian), and the remaining two directors will be appointed by Fujian Local Industry Fund and Fujian Leading Enterprises Fund respectively. The chairman of the JV Company will be appointed by NetDragon (Fujian).

Non-competition Agreement

In order to prevent competition between the JV Company and the Group, the parties agree that the JV Company will enter into a non-competition agreement with the Group within one year of the establishment of the JV Company. Details of such non-competition agreement will be approved by the board of directors of the JV Company.

REASONS FOR THE FORMATION OF THE JV COMPANY

The Group is principally engaged in online game and mobile Internet application development and operations in the PRC. Complemented by the financial strength and resources of Fujian Local Industry Fund and Fujian Leading Enterprises Fund, the Group would be likely to further develop and better tap into the vast market potential of (including but not limited to) the information application in the industries such as medical and tourism as well as the VR and AR technologies in the PRC, meanwhile expand its products and services to “One-Belt, One Road” countries so as to satisfy the increasing demand in the local market.

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

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As the applicable percentage ratios (as defined in the Listing Rules) in respect of the JV Agreement in aggregate are more than 5% but less than 25%, the entering into of the JV Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from the Shareholders’ approval requirement under Chapter 14 of the Listing Rules.

INFORMATION OF THE GROUP AND PARTIES TO THE JV AGREEMENT

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

Fujian Local Industry Fund is a fund incorporated as a limited liability partnership in the PRC. Its general partner, Fujian Innovation & Venture Investment Management Co. Ltd* (福建省創新創業投資管理有限公司), is principally engaged in venture investment business, venture investment agency business for organizations such as other venture investment enterprises or individuals; venture investment advisory business; providing venture management service for venture enterprises; participating in establishing investments between venture investment enterprises and venture investment management consulting agencies.

Fujian Leading Enterprises Fund is a fund incorporated as a limited liability partnership in the PRC. Its general partner, Fujian Innovation & Venture Investment Management Co. Ltd* (福建省創新創業投資管理有限公司), is principally engaged in venture investment business, venture investment agency business for organizations

such as other venture investment enterprises or individuals; venture investment advisory business; providing venture management services for venture enterprises; participating in establishing investments between venture investment enterprises and venture investment management consulting agencies.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Board”	the board of Directors
“Company”	NetDragon Websoft Holdings Limited, a company incorporated in the Cayman Islands, whose Shares are listed on the Main Board (stock code: 777)
“Connected person”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Fujian Leading Enterprises Fund”	Fujian Leading Enterprises Equities Investment Fund LLP* (福建龍頭產業股權投資基金合夥企業(有限合夥)), a limited liability partnership incorporated in the PRC.
“Fujian Local Industry Fund”	Fujian Local Industry Equities Investment Fund LLP* (福建地方產業股權投資基金合夥企業(有限合夥)), a limited liability partnership incorporated in the PRC.
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of, and not connected with, the Company and its Connected Persons
“JV Agreement”	the joint venture agreement dated 25 January 2017 entered into among NetDragon (Fujian), Fujian Local Industry Fund and Fujian Leading Enterprises Fund in relation to the establishment of the JV Company

“JV Company”	a limited liability company to be established under the JV Agreement and to be established under the laws of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the main board maintained and operated by the Stock Exchange
“NetDragon (Fujian)”	Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡資訊技術有限公司) formerly known as “Fuzhou NetDragon Websoft Co., Ltd.” (福州網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999, and through certain structure contracts, Fujian TQ Digital Inc. (福建天晴數碼有限公司) and Fujian TQ Online Interactive Inc. (福建天晴在綫互動科技有限公司) is able to control NetDragon (Fujian) and accordingly, our deemed subsidiary
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By Order of the Board
NetDragon Websoft Holdings Limited
Liu Dejian
Chairman

Hong Kong, 25 January 2017

As at the date of this announcement, the Board comprises five executive Directors, namely Liu Dejian, Leung Lim Kin Simon, Liu Luyuan, Zheng Hui and Chen Hongzhan; one non-executive Director, namely Lin Dongliang; and three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

* *For identification purpose only*

The exchange rate adopted in this announcement for illustration purposes only is RMB1 = HKD 0.88430.