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NetDragon

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)

**CONTINUING CONNECTED TRANSACTIONS
CHANGE IN ONE OF THE REGISTERED OWNERS OF
THE PRC OPERATING ENTITY
UNDER THE EXISTING ND STRUCTURE CONTRACTS**

Reference is made to the section headed “Structure Contracts” in the Prospectus in relation to, among other things, the Existing VIE Structure.

On 3 May 2021, the relevant parties below have entered into the following agreements to address the departure of one of the Existing Registered Owners, being Mr. Liu, our executive Director and one of the Controlling Shareholders to transfer his equity interest in NetDragon (Fujian) to Mr. Zheng, our executive Director, one of the Controlling Shareholders and the cousin of Mr. Liu:—

- (1) the Equity Transfer Agreement dated 3 May 2021 entered into between Mr. Liu and Mr. Zheng, pursuant to which Mr. Liu agreed to transfer 3.2337% equity interest in NetDragon (Fujian) to Mr. Zheng at a consideration of RMB9,701,050;
- (2) the Pledge Release Agreement dated 3 May 2021 entered into between TQ Digital and Mr. Liu, pursuant to which TQ Digital and Mr. Liu agreed to release the pledge over Mr. Liu’s equity interest in NetDragon (Fujian); and
- (3) the Supplemental ND Structure Contracts dated 3 May 2021, which included: -
 - (i) the Supplemental Equity Interest Pledge Agreement dated 3 May 2021 entered into between TQ Digital and Mr. Zheng, pursuant to which Mr. Zheng agreed to grant to TQ Digital a continuing first priority security interests over the equity interest as a result of the Equity Transfer; and

- (ii) the Supplemental Agreement dated 3 May 2021 entered into between TQ Digital, NetDragon (Fujian) and the Existing Registered Owners to amend (a) the Agreement for the Exclusive Right to Acquire Equity Interest and Assets; (b) the Equity Holders' Voting Rights Proxy Agreement; and (c) the Equity Interest Pledge Agreement, pursuant to which, among other things, upon completion of registration of change in equity interest as a result of the Equity Transfer at the relevant PRC authority, Mr. Liu shall be released from all rights and obligations under these three agreements, and the rights and obligations imposed on TQ Digital, NetDragon (Fujian) and the Remaining Registered Owners under these three agreements remain unchanged.

IMPLICATIONS UNDER THE LISTING RULES

Following the signing of the Supplemental ND Structure Contracts, the financial results of NetDragon (Fujian) will continue to be accounted for and consolidated in the accounts of the Group as if it were a wholly-owned subsidiary of the Company. As Mr. Liu, Mr. Liu Luyuan and Mr. Zheng, being the executive Directors and the Controlling Shareholders, are interested in an aggregate of 99.96% of NetDragon (Fujian) (prior to the completion of the Equity Transfer), NetDragon (Fujian) is technically an associate of Mr. Liu, Mr. Liu Luyuan and Mr. Zheng, and therefore connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Supplemental ND Structure Contracts constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the Supplemental ND Structure Contracts are supplemental to the Existing ND Structure Contracts to address the departure of Mr. Liu and other terms of the Existing ND Structure Contracts remain unchanged and in full force and effect, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the Existing ND Structure Contracts amended by the Supplemental ND Structure Contracts would continue to fall within the scope of the IPO Waiver.

BACKGROUND

Reference is made to the section headed "Structure Contracts" in the Prospectus in relation to, among other things, the Existing VIE Structure. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Prospectus.

On 3 May 2021, the relevant parties below have entered into the following agreements to address the departure of one of the Existing Registered Owners, being Mr. Liu, our executive Director and one of the Controlling Shareholders to transfer his equity interest in NetDragon (Fujian) to Mr. Zheng, our executive Director, one of the Controlling Shareholders and the cousin of Mr. Liu:—

- (1) the Equity Transfer Agreement dated 3 May 2021 entered into between Mr. Liu and Mr. Zheng, pursuant to which Mr. Liu agreed to transfer 3.2337% equity interest in NetDragon (Fujian) to Mr. Zheng at a consideration of RMB9,701,050;
- (2) the Pledge Release Agreement dated 3 May 2021 entered into between TQ Digital and Mr. Liu, pursuant to which TQ Digital and Mr. Liu agreed to release the pledge over Mr. Liu's equity interest in NetDragon (Fujian); and

- (3) the Supplemental ND Structure Contracts dated 3 May 2021, which included: -
- (i) the Supplemental Equity Interest Pledge Agreement dated 3 May 2021 entered into between TQ Digital and Mr. Zheng, pursuant to which Mr. Zheng agreed to grant to TQ Digital a continuing first priority security interests over the equity interest as a result of the Equity Transfer; and
 - (ii) the Supplemental Agreement dated 3 May 2021 entered into between TQ Digital, NetDragon (Fujian) and the Existing Registered Owners to amend (a) the Agreement for the Exclusive Right to Acquire Equity Interest and Assets; (b) the Equity Holders' Voting Rights Proxy Agreement; and (c) the Equity Interest Pledge Agreement, pursuant to which, among other things, upon completion of registration of change in equity interest as a result of the Equity Transfer at the relevant PRC authority, Mr. Liu shall be released from all rights and obligations under these three agreements, and the rights and obligations imposed on TQ Digital, NetDragon (Fujian) and the Remaining Registered Owners under these three agreements remain unchanged.

Accordingly, NetDragon (Fujian) will remain a consolidated affiliated entity of the Company and its financial results will continue to be accounted for and consolidated in the accounts of the Group as if it were a wholly-owned subsidiary of the Company.

The structure contracts of Best Assistant will not need to be amended since Mr. Liu is not party to them.

REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER

As disclosed in the Prospectus and as of the date of this announcement, the businesses operated by the Group include the operation of online games and ongoing maintenance of developed games in the PRC which is considered as value-added telecommunications services. Pursuant to applicable PRC laws and regulations, foreign investors are restricted to conduct value-added telecommunications services business, and accordingly, the Group has adopted the Existing VIE Structure, which has enabled the Group, through its wholly-owned subsidiaries, TQ Digital and TQ Online, to exercise control over NetDragon (Fujian) that hold the relevant license required for carrying out the such services and operating the aforementioned business) and to consolidate its financial results into the Group's results.

The reason for the Equity Transfer is to improve the administration efficiency of NetDragon (Fujian). As Mr. Liu, one of the Existing Registered Owners, is responsible for the overall business strategic development of the Group and he is also the chief game designer of the Group's game development team. Due to the expansion of the Group's overseas business and the increase in the relevant revenue, Mr. Liu requires more time in handling overseas business. To improve administrative efficiency, various administrative matters or filings of NetDragon (Fujian) could be more efficiently and effectively managed by Mr. Zheng, who is the legal representative and director of NetDragon (Fujian). The Directors also consider that the Equity Transfer would enable the Group to strengthen its global strategy by allowing Mr. Liu to devote more of his time to the Group's business worldwide while achieving administrative convenience in the daily operation of NetDragon (Fujian).

The PRC Legal Adviser has confirmed that the Supplemental ND Structure Contracts (i) are not in violation of applicable laws and regulations in the PRC; (ii) do not fall into the circumstances that will invalidate the contracts under the Civil Code of the People's Republic of China; and (iii) are legally binding on the parties under the laws of the PRC.

Based on the above and as advised by the PRC Legal Adviser, since the Supplemental ND Structure Contracts are only entered into to address the departure of Mr. Liu who will no longer be holder of equity interest in NetDragon (Fujian), and all other terms under the Existing ND Structure Contracts remain unchanged and in full force and effect, the Directors are of the view that each of the arrangements under the Supplemental ND Structure Contracts conferring significant control and economic benefits from NetDragon (Fujian) is enforceable under the relevant laws and regulations.

The Directors (including the independent non-executive Directors) are of the view that each of the Supplemental ND Structure Contracts is on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole. Mr. Liu, Mr. Liu Luyuan and Mr. Zheng had material interest in the Supplemental ND Structure Contracts, and accordingly they had abstained from voting at the meeting of the Board to approve the entering into of the Supplemental ND Structure Contracts and the Pledge Release Agreement.

As of the date of this announcement, the Company has not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through NetDragon (Fujian) under the Existing VIE Structure.

EQUITY TRANSFER AGREEMENT

Date: 3 May 2021

Parties: (i) Mr. Liu
(ii) Mr. Zheng

Subject matter: Mr. Liu agreed to transfer 3.2337% of the equity interest in NetDragon (Fujian) to Mr. Zheng at a consideration of RMB9,701,050. The consideration was determined based on arm's length negotiation with reference to the initial investment amount paid by Mr. Liu when he subscribed for the equity interest in NetDragon (Fujian).

PLEDGE RELEASE AGREEMENT

Date: 3 May 2021

Parties: (i) TQ Digital
(ii) Mr. Liu

Subject matter: TQ Digital and Mr. Liu agreed to release the pledge over the Mr. Liu's equity interest in NetDragon (Fujian).

SUPPLEMENTAL ND STRUCTURE CONTRACTS

On 3 May 2021, the relevant parties entered into the following Supplemental ND Structure Contracts to address the Equity Transfer:

- (ii) Supplemental Equity Interest Pledge Agreement; and
- (iii) Supplemental Agreement.

The principal terms of the Supplemental ND Structure Contracts are set out below:

1. Supplemental Equity Interest Pledge Agreement

- Date: 3 May 2021
- Parties: (i) TQ Digital as pledgee
(ii) Mr. Zheng as pledgor
- Subject matter: (i) Mr. Zheng agreed to granted to TQ Digital a continuing first priority security interest over the equity interest as a result of the Equity Transfer for the prompt and full performance of his obligations under the Existing ND Structure Contracts and the Supplemental ND Structure Contracts; and
(ii) Mr. Zheng warranted to TQ Digital that all appropriate arrangements had been made and all necessary documents had been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties would adversely impact or hinder the enforcement of the Supplemental Equity Interest Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of Mr. Zheng.
- Term: The pledge of equity interest as a result of the Equity Transfer in NetDragon (Fujian) shall become effective from the date of signing of the Supplemental Equity Interest Pledge Agreement. The pledge shall be continuously valid until all the obligations of Mr. Zheng under the Existing ND Structure Contracts have been fulfilled.

2. Supplemental Agreement

- Date: 3 May 2021
- Parties: (i) TQ Digital
(ii) NetDragon (Fujian)
(iii) Existing Registered Owners

Subject matter: NetDragon (Fujian) and the Existing Registered Owners undertake that upon completion of registration of change in equity interest as a result of the Equity Transfer at the relevant PRC authority:–

- (i) NetDragon (Fujian) and the Remaining Registered Owners shall, pursuant to the Agreement for the Exclusive Right to Acquire Equity Interest and Assets, continue their rights and obligations to grant to TQ Digital or its designee (a) a right to acquire part or all of the equity interest in the registered capital of NetDragon (Fujian); and (b) a right to acquire part or all of the assets of NetDragon (Fujian) from the Remaining Registered Owners as and when permitted by the relevant PRC laws and regulations, and Mr. Liu shall be released from all rights and obligations under the Agreement for the Exclusive Right to Acquire Equity Interest and Assets;
- (ii) the Remaining Registered Owners shall, pursuant to the Equity Holders' Voting Rights Proxy Agreement, continue their rights and obligations to irrevocably authorize TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting rights in NetDragon (Fujian), and Mr. Liu shall be released from all rights and obligations under the Equity Holders' Voting Rights Proxy Agreement; and
- (iii) the Remaining Registered Owners shall, pursuant to the Equity Interest Pledge Agreement, continue their rights and obligations to grant to TQ Digital a continuing first priority security interests over their respective equity interest in the registered capital of NetDragon (Fujian), representing all of the equity interest in its registered capital, and Mr. Liu shall be released from all rights and obligations under the Equity Interest Pledge Agreement.

Save as disclosed above, all the other terms under the Existing ND Structure Contracts remain unchanged and in full force and effect.

INFORMATION OF THE PARTIES

The Company is incorporated in Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the development and operation of online games and education business.

TQ Digital is a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company. TQ Digital is principally engaged in development of online games and licensing and servicing of the developed games.

NetDragon (Fujian) is a limited liability company established in the PRC and a consolidated affiliated entity of the Company. NetDragon (Fujian) is principally engaged in the operation of online games. NetDragon (Fujian) holds an ICP license which are required to carry out its operations and ongoing maintenance of developed games in the PRC which is considered as value-added telecommunications services.

Each of Mr. Liu and Mr. Zheng is the executive Director and one of the Controlling Shareholders. Mr. Zheng is the cousin of Mr. Liu.

IMPLICATIONS UNDER THE LISTING RULES

Following the signing of the Supplemental ND Structure Contracts, the financial results of NetDragon (Fujian) will continue to be accounted for and consolidated in the accounts of the Group as if it were a wholly-owned subsidiary of the Company. As Mr. Liu, Mr. Liu Luyuan and Mr. Zheng, being the executive Directors and the Controlling Shareholders, are interested in an aggregate of 99.96% of NetDragon (Fujian) (prior to the completion of the Equity Transfer), NetDragon (Fujian) is technically an associate of Mr. Liu, Mr. Liu Luyuan and Mr. Zheng, and therefore connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Supplemental ND Structure Contracts constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the Supplemental ND Structure Contracts are supplemental to the Existing ND Structure Contracts to address the departure of Mr. Liu and other terms of the Existing ND Structure Contracts remain unchanged and in full force and effect, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the Existing ND Structure Contracts amended by the Supplemental ND Structure Contracts would continue to fall within the scope of the IPO Waiver.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings ascribed to them below:

“Agreement for the Exclusive Right to Acquire Equity Interest and Assets”	the agreement for the exclusive right to acquire equity interest and assets dated 15 October 2007 between TQ Digital, NetDragon (Fujian) and the Existing Registered Owners
“associate”	has the meaning ascribed to it in the Listing Rules
“Best Assistant”	Best Assistant Education Online Limited, a company incorporated in Cayman Islands with limited liability, an indirect non wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Company”	NetDragon Websoft Holdings Limited, a company incorporated in Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Controlling Shareholder(s)”	the controlling shareholder(s) (as defined under the Listing Rules) of the Company
“Director(s)”	the director(s) of the Company
“Equity Interest Pledge Agreement”	the equity interest pledge agreement dated 15 October 2007 between TQ Digital and the Existing Registered Owners

“Equity Holders’ Voting Rights Proxy Agreement”	the equity holders’ voting rights proxy agreement dated 15 October 2007 between TQ Digital, NetDragon (Fujian) and the Existing Registered Owners
“Equity Transfer”	the transfer of 3.2337% equity interest in NetDragon (Fujian) from Mr. Liu to Mr. Zheng pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	the equity transfer agreement dated 3 May 2021 between Mr. Liu and Mr. Zheng
“Existing Registered Owners”	collectively, Mr. Liu, Mr. Zheng, Mr. Liu Luyuan, Mr. Chen Minlin and Ms. Lin Yun
“Existing 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
“Existing VIE Structure”	the existing structure established through the entering into of the Existing ND Structure Contracts, which enables TQ Digital and TQ Online to effectively hold and control NetDragon (Fujian)
“Group” or “our”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IPO Waiver”	the specific waiver from strict compliance with the connected transaction requirements of Chapter 14A including but not limited to Existing ND Structure Contracts dated 2 May 2008
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Liu”	Mr. Liu Dejian (劉德建), the chairman of the Board, an executive Director and one of the Controlling Shareholders
“Mr. Zheng”	Mr. Zheng Hui (鄭輝), an executive Director and one of the Controlling Shareholders
“NetDragon (Fujian)”	福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.), a limited liability company established under the laws of the PRC on 25 May 1999
“Pledge Release Agreement”	the pledge release agreement dated 3 May 2021 between TQ Digital and Mr. Liu in relation to termination of Equity Interest Pledge Agreement in respect of Mr. Liu’s equity interest in NetDragon (Fujian)
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“PRC Legal Adviser”	Jingtian & Gongcheng, the legal adviser to the Company as to the PRC laws
“PRC Operating Entity”	NetDragon (Fujian) and its subsidiaries
“Prospectus”	the prospectus of the Company dated 27 May 2008
“Remaining Registered Owners”	collectively, Mr. Zheng, Mr. Liu Luyuan, Mr. Chen Minlin and Ms. Lin Yun
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 3 May 2021 between TQ Digital, NetDragon (Fujian) and the Existing Registered Owners to amend (a) the Agreement for the Exclusive Right to Acquire Equity Interest and Assets; (b) the Equity Holders’ Voting Rights Proxy Agreement; and (c) the Equity Interest Pledge Agreement
“Supplemental Equity Interest Pledge Agreement”	the supplemental equity interest pledge agreement dated 3 May 2021 between TQ Digital and Mr. Zheng in respect of the 3.2337% equity interest of NetDragon (Fujian) to be transferred from Mr. Liu to Mr. Zheng
“Supplemental ND Structure Contracts”	collectively, (1) the Supplemental Equity Interest Pledge Agreement; and (2) the Supplemental Agreement
“TQ Digital”	福建天晴數碼有限公司 (Fujian TQ Digital Inc), a wholly foreign-owned enterprise established in the PRC on 28 February 2003 and an indirect wholly-owned subsidiary of the Company
“TQ Online”	福建天晴在線互動科技有限公司 (Fujian TQ Online Interactive Inc.), a wholly foreign-owned enterprise established in the PRC on 18 March 2008 and an indirect wholly-owned subsidiary of the Company
“VIE”	variable interest entity(ies)
“%”	per cent

On behalf of the Board
NetDragon Websoft Holdings Limited
Liu Dejian
Chairman

Hong Kong, 3 May 2021

As at the date of this announcement, the Board of the Company 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.