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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)

CONNECTED TRANSACTION

CAPITAL CONTRIBUTION AGREEMENT IN RESPECT OF THE TARGET COMPANY

THE CAPITAL CONTRIBUTION AGREEMENT

On 29 April 2022 (after trading hours), TQ Online, an indirect wholly-owned subsidiary of the Company, entered into the Capital Contribution Agreement with other Investors, existing shareholders of the Target Company and the Target Company, pursuant to which, amongst other things, TQ Online has conditionally agreed to make Capital Contribution in the amount of RMB50 million to the Target Company. Upon Completion, TQ Online will become a holder of approximately 2.27% of the total equity interest in the Target Company.

LISTING RULES IMPLICATION

As the Target Company is indirectly held as to approximately 61.53% by the family members of Mr. LIN Dongliang, a non-executive Director (including his son and his spouse), the Target Company is connected person of the Company. Accordingly, the entering into of the Capital Contribution Agreement by TQ Online with the Target Company and other Parties constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the percentage ratios applicable to the Capital Contribution Agreement is more than 0.1% but is less than 5%, the entering into of the Capital Contribution Agreement is subject to reporting and announcement requirements but is exempted from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. BACKGROUND

On 29 April 2022 (after trading hours), TQ Online, an indirect wholly-owned subsidiary of the Company, entered into the Capital Contribution Agreement with other Investors, existing shareholders of the Target Company and the Target Company, pursuant to which, amongst other things, TQ Online has conditionally agreed to make Capital Contribution in the amount of RMB50 million to the Target Company. Upon Completion, TQ Online will become a holder of approximately 2.27% of the total equity interest in the Target Company.

2. INVESTMENT AGREEMENT

The principal terms of the Capital Contribution Agreement are as follows:

- Date : 29 April 2022 (after trading hours)
- Parties : (1) TQ Online and other Investors;
- (2) 16 existing shareholders of the Target Company (including six (6) entities which are controlled by the family members of Mr. LIN Dongliang, a non-executive Director); and
- (3) the Target Company
- Capital Contribution : Pursuant to the terms of the Capital Contribution Agreement, TQ Online and other Investors agreed to make monetary capital contributions to the Target Company as follows:

Party	Total capital contribution to be made (RMB)	Approximate percentage of equity interest in the Target immediately after completion of the Capital Contributions
TQ Online	50 million	2.27%
Other Investors (excluding TQ Online)	150 million	6.82%
Total	200 million	9.09%

- Payment terms : Pursuant to the Capital Contribution Agreement, TQ Online shall make the Capital Contribution to the Company in two (2) installments.

Initial Completion shall take place within ten (10) days upon execution of the Capital Contribution Agreement.

Final Completion shall take place upon (i) satisfaction of the conditions precedent by the applicable Parties (or waived by TQ Online and other Investors as the case may be) as stated in the Capital Contribution Agreement and (ii) within ten (10) business days after the Target Company has completed the AIC Registration Procedure and obtained a new business licence.

Furthermore, the Target Company shall, within thirty (30) days after the Initial Completion Date, completed the AIC Registration Procedure.

In the event that the Target Company is unable to apply for and complete the AIC Registration Procedure, TQ Online shall be entitled to request for refund of the Initial Capital Contribution Sum and payment of interest which shall be calculated at loan prime rate (LPR) published by the National Interbank Funding Center.

Rights of the Investors : The Parties agreed that upon Initial Completion, each of TQ Online and other Investors shall become shareholders of the Target Company and are entitled to relevant rights as a shareholder of the Target Company, including but without limitation to the rights of equity transfer, pre-emptive rights, right of first refusal, anti-dilution rights, tag-along rights, drag-along rights, right of most favorable treatment, rights of redemption, rights of priority settlement, information rights and observation rights, right of priority to bonuses. TQ Online and other Investors shall enjoy the same priority and ranking as the existing shareholders of the Target Company.

The Parties also agreed to, on even date of the Capital Contribution Agreement, enter into a shareholders' agreement with TQ Online and other Investors to regulate the rights of TQ Online and other Investors as a shareholder of the Target Company.

3. CONSIDERATION AND THE BASIS OF DETERMINATION OF THE CONSIDERATION

The amount of the Capital Contributions were determined after arm's length negotiation between TQ Online and the Parties with reference to the registered capital of the Target Company, and after consideration of the book value and quality of the underlying assets of the Target Group, the strategic synergies between the Group and the Target Group, the growth potential of the business of the Target Group and the general market conditions, and was negotiated and determined between TQ Online and other Investors and other Parties to the Capital Contribution Agreement on an equal and fair basis. The Capital Contribution to be made by TQ Online will be financed by the internal resources of the Group.

4. INFORMATION OF THE TARGET COMPANY

The Target Company is established on 17 July 2015 as a sino-foreign joint venture with limited liability in the PRC. It is principally engaged in the research and manufacturing of touch user interface (TUI) material and products, as well as provision of TUI solutions. For further information of the Target Company, please refer to its website at <https://www.mesh-tech.com/>.

Set out below is the audited financial information of the Target Company for the year ended 31 December 2020 and the unaudited financial information of the Target Company for the year ended 31 December 2021, prepared based on the generally accepted accounting principles of the PRC:

	For the year ended 31 December 2021 RMB'000 (unaudited)	For the year ended 31 December 2020 RMB'000 (audited)
Net profits/(loss) before taxation	(29,687)	(78,921)
Net profits/(loss) after taxation	(25,678)	(73,522)

Based on the unaudited financial information of the Target Company prepared based on the generally accepted accounting principles of the PRC, as of 31 December 2021, the total asset value and net asset value of the Target Company were approximately RMB267,880,000 and RMB106,098,000 respectively.

5. REASON FOR AND BENEFITS OF ENTERING INTO THE TRANSACTIONS

The Directors are of the view that the Capital Contribution will help the Group to capitalize on opportunities in terms of strategic synergies through potential application of the Target Company's technologies in the future to broaden and enhance the Company's product portfolio, as well as capturing the financial return from the growth of the fast-growing TUI industry, given the Target Company's proprietary technologies and a global addressable market size.

The Target Company is a market leader in the TUI industry and possess leading research and development capabilities with a team of competent research and production talent. Therefore, the strategic investment in the Target Group is expected to further enhance the Group's technological competitiveness and contribute to its long-term success.

In light of the above, the Board (including the independent non-executive Directors) has approved the terms of the Capital Contribution Agreement and the Transactions, and considered the terms of the Capital Contribution Agreement and the Transactions being fair and reasonable, on normal commercial terms or better, and in the interests of the Company and the shareholders of the Company as a whole. Mr. Lin Dongliang, the non-executive Director, was deemed to have interests in the Transactions and have abstained from voting in respect of the relevant board resolutions approving the Transactions. Save as Mr. Lin Dongliang mentioned above, none of the Directors had material interests in the Transactions or was required to abstain from voting on the relevant Board resolutions.

6. GENERAL INFORMATION OF THE COMPANY AND TQ ONLINE

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 online and mobile games development, including games design, programming and graphics and online and mobile games operation, education business, mobile solution, products and marketing business and property project business.

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

7. LISTING RULES IMPLICATION

As the Target Company is indirectly held as to approximately 61.53% by the family members of Mr. LIN Dongliang, a non-executive Director (including his son and his spouse), the Target Company is connected person of the Company. Accordingly, the entering into of the Capital Contribution Agreement by TQ Online with the Target Company and other Parties constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the percentage ratios applicable to the Capital Contribution Agreement is more than 0.1% but is less than 5%, the entering into of the Capital Contribution Agreement is subject to reporting and announcement requirements but is exempted from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

8. DEFINITIONS

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

“AIC Registration Procedure”	the registration procedures by the Target Company with the relevant Administration of Industry and Commerce of the PRC in respect of change in registered capital of the Target Company
“Board”	the board of directors of the Company
“Capital Contribution”	comprises the Initial Capital Contribution Sum and Final Contribution Sum, which are to be conditionally made by TQ Online in accordance with the terms and subject to the conditions of the Capital Contribution Agreement
“Capital Contribution Agreement”	the capital contribution agreement dated 29 April 2022 entered into between TQ Online, the other Investors, the existing shareholders of the Target Company and the Target Company in respect of, among other things, the subscription of the equity interest of the Target Company upon the Capital Contribution

“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
“Completion”	comprising Initial Completion and Final Completion pursuant to the terms of the Capital Contribution Agreement
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Final Capital Contribution Sum”	among other Investors, being RMB30 million, which shall be made payable by TQ Online to the Target Company upon Final Completion
“Final Completion”	the second and final part of completion in respect of the Capital Contribution Agreement, which shall take place on the Final Completion Date
“Final Completion Date”	the date upon which (i) each of the conditions precedent as stipulated under the Capital Contribution Agreement are fulfilled by the Target Company and (where applicable) the Initial Shareholder or waived by TQ Online and other Investors (as the case may be); and (ii) the Target Company has completed the AIC Registration Procedure and obtained a new business licence
“Group”	the Company and its subsidiaries
“Initial Capital Contribution Sum”	among other Investors, being RMB20 million, which shall be made payable by TQ Online to the Target Company on or before the Initial Completion Date
“Initial Completion”	the first part of completion in respect of the Capital Contribution Agreement, which shall take place on the Initial Completion Date
“Initial Completion Date”	the date within ten (10) days after the execution of the Capital Contribution Agreement
“Investor(s)”	TQ Online, together with other investors who have agreed to make monetary capital contributions to the Target Company pursuant to the Capital Contribution Agreement
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the Main Board of the Stock Exchange

“Parties”	the parties to the Capital Contribution Agreement, namely TQ Online, the Investors, the existing shareholders of the Target Company and the Target Company
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	無錫變格新材料科技有限公司(Wuxi Mesh Tech Co., Ltd.), a sino-foreign joint venture stock limited company incorporated in the PRC on 17 July 2015
“Target Group”	the Target Company and its subsidiaries
“Transactions”	the Capital Contribution and the transactions contemplated thereunder
“Transaction Document(s)”	the Capital Contribution Agreement and ancillary documents to be entered into by TQ Online and other Parties in respect of the Transaction, including the shareholders’ agreement in respect of the Target 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 through a variable interest entities structure
“%”	per cent

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

Hong Kong, 29 April 2022

As at the date of this announcement, the executive Directors of the Company are Liu Dejian, Leung Lim Kin Simon, Liu Luyuan, Zheng Hui and Chen Hongzhan; the non-executive Director of the Company is Lin Dongliang; and the independent non-executive Directors of the Company are Chao Guowei, Charles, Lee Kwan Hung, Eddie and Liu Sai Keung, Thomas.