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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 TRANSACTIONS IN RELATION TO TENANCY AGREEMENTS

TENANCY AGREEMENTS

The Existing Tenancy Agreement dated 19 January 2021 entered into between NetDragon (Fujian) and Fuzhou 851 in relation to the 851 New Building will expire on 21 January 2024. On 19 January 2024, NetDragon (Fujian), as tenant, and Fuzhou 851, as landlord, (i) entered into the 851 New Building Tenancy Agreement to renew the Existing Tenancy Agreement for a term of three years and (ii) entered into the Zhenhua Building Tenancy Agreement for the lease in respect of the Zhenhua Building for a term of three years.

IMPLICATIONS UNDER THE LISTING RULES

Fuzhou 851 is wholly owned by DJM Holding Ltd., a controlling shareholder of the Company, and DJM Holding Ltd. is wholly owned by Liu Dejian, an executive Director. Therefore, Fuzhou 851 is a connected person of the Company under the Listing Rules. The transaction contemplated under the Tenancy Agreements constitute connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognised by the Group under the Tenancy Agreements are more than 0.1% and less than 5%, the entering into of the Tenancy Agreements is only subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules and is exempt from the independent shareholders' approval requirement.

Reference is made to the announcement of the Company dated 19 January 2021 in relation to the connected transaction under the Existing Tenancy Agreement. The Existing Tenancy Agreement dated 19 January 2021 entered into between NetDragon (Fujian) and Fuzhou 851 in relation to the 851 New Building will expire on 21 January 2024. On 19 January 2024, NetDragon (Fujian) entered into (i) the 851 New Building Tenancy Agreement to renew the Existing Tenancy Agreement and (ii) the Zhenhua Building Tenancy Agreement with Fuzhou 851.

A summary of the principal terms of the Tenancy Agreements is as follows:

851 NEW BUILDING TENANCY AGREEMENT

- Date: 19 January 2024
- Parties: (a) Fuzhou 851 as landlord; and
(b) NetDragon (Fujian) as tenant
- Premises: Office premises from the first to three floor and the conference room on the fourth floor of the 851 New Building with a total gross floor area of approximately 5,631.82 sq.m.
- Term: For a period of three (3) years commencing from 22 January 2024 to 21 January 2027 (both days inclusive). NetDragon (Fujian) is required to serve a request three (3) months in advance of the expiry date of the 851 New Building Tenancy Agreement to Fuzhou 851 requesting tenancy renewal (if any)
- Rent: Total annual rent of RMB7,096,000 (equivalent to approximately HK\$7,806,000) (which shall not be adjusted during the term)
- Payable Term: Monthly rent of approximately RMB591,000 (equivalent to approximately HK\$650,000) which shall be payable in advance on a quarterly basis five (5) working days prior to the end of each quarter
- Deposit: RMB1,704,000 (equivalent to approximately HK\$1,874,000) (payable within seven (7) working days upon the signing of the 851 New Building Tenancy Agreement and shall be refunded to NetDragon (Fujian) without interest within three (3) working days upon the expiry or termination of the 851 New Building Tenancy Agreement provided that NetDragon (Fujian) has not breached any of the terms and conditions of the 851 New Building Tenancy Agreement). The Deposit of RMB426,000 (equivalent to approximately HK\$469,000) paid by NetDragon (Fujian) under the Existing Tenancy Agreement would be used to offset part of the Deposit of the 851 New Building Tenancy Agreement
- Purposes: General office purposes

ZHENHUA BUILDING TENANCY AGREEMENT

- Date: 19 January 2024
- Parties: (a) Fuzhou 851 as landlord; and
(b) NetDragon (Fujian) as tenant
- Premises: Basement level one to level three and the first floor to ninth floor of Zhenhua Building with a total gross floor area of approximately 18,471.53 sq.m.
- Term: For a period of three (3) years commencing from 21 January 2024 to 20 January 2027 (both days inclusive). NetDragon (Fujian) is required to serve a request three (3) months in advance of the expiry date of the Zhenhua Building Tenancy Agreement to Fuzhou 851 requesting tenancy renewal (if any)
- Rent: Total annual rent of RMB26,599,000 (equivalent to approximately HK\$29,259,000) (which shall not be adjusted during the term)
- Payable Term: Monthly rent of approximately RMB2,217,000 (equivalent to approximately HK\$2,439,000) which shall be payable in advance on a quarterly basis five (5) working days prior to the end of each quarter
- Deposit: RMB6,650,000 (equivalent to approximately HK\$7,315,000) (payable within seven (7) working days upon the signing of the Zhenhua Building Tenancy Agreement and shall be refunded to NetDragon (Fujian) without interest within three (3) working days upon the expiry or termination of the Zhenhua Building Tenancy Agreement provided that NetDragon (Fujian) has not breached any of the terms and conditions of the Zhenhua Building Tenancy Agreement)
- Purposes: General office purposes

REASONS AND BENEFITS FOR ENTERING INTO THE TENANCY AGREEMENTS

The Directors are of the view that the entering into of the Tenancy Agreements (i) is necessary for continuing the operation and growth of the business of NetDragon (Fujian); and (ii) would allow ample office space to facilitate the future expansion and growth of the Group's business and is therefore beneficial to the Group. In view of the business growth of the Group, more office space is required. The Zhenhua Building Tenancy Agreement, in addition to the 851 New Building Tenancy Agreement, will ensure sufficient space for the Group's business expansion.

The terms of the Tenancy Agreements were determined after arm's length negotiations between the parties and with reference to (i) the open market rent of comparable properties; and (ii) the previous rental payment made by the Group under the Existing Tenancy Agreement. The rental charged by Fuzhou 851 under the Tenancy Agreements is fair and reasonable; and the terms of the Tenancy Agreements are on normal commercial terms after arm's length negotiations.

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

AGGREGATED VALUE OF RIGHT-OF-USE ASSETS

The aggregate values of the right-of-use assets to be recognised by the Group under the Tenancy Agreements was estimated to be approximately RMB89,615,000, being the present value of the aggregate tenancy payments using the rate applicable at the commencement date of the Tenancy Agreements in accordance with HKFRS 16 as discounted using a discount rate which is equivalent to the incremental borrowing rate. Right-of-use assets are depreciated on a straight-line basis over the lease terms. The above figure is unaudited and may be subject to adjustment in the future.

INFORMATION ON THE GROUP AND FUZHOU 851

The Group is principally engaged in (i) online and mobile games development, including games design, programming and graphics and online and mobile games operation, (ii) education business, (iii) mobile solution, products and marketing business and (iv) property project business.

Fuzhou 851 is a wholly foreign-owned enterprise established in the PRC with limited liability, whose principal businesses are the development and manufacturing of health products for consumers in the PRC and the overseas.

IMPLICATIONS UNDER THE LISTING RULES

Fuzhou 851 is wholly owned by DJM Holding Ltd., a controlling shareholder of the Company that is wholly owned by Liu Dejian, an executive Director. Therefore, Fuzhou 851 is a connected person of the Company under the Listing Rules. The transaction contemplated under the Tenancy Agreements constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognised by the Group under the Tenancy Agreements are more than 0.1% and less than 5%, the entering into of the Tenancy Agreements is only subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules and is exempt from the independent shareholders' approval requirement.

Except for Mr. Liu Dejian, no Directors have a material interest in the transaction contemplated under the Tenancy Agreements. Accordingly, Mr. Liu Dejian has abstained from voting on the Board resolution in relation to the transaction contemplated under the Tenancy Agreements.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“851 New Building”	851 R&D Building (851研發樓) (formerly known as “851 New Building” (新851大樓)), which is located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou City, Fujian Province, the PRC
“851 New Building Tenancy Agreement”	a renewal tenancy agreement dated 19 January 2024 and entered into between NetDragon (Fujian) and Fuzhou 851 in relation to the 851 New Building
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	NetDragon Websoft Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, and the issued Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Existing Tenancy Agreement”	a tenancy agreement dated 19 January 2021 and entered into between NetDragon (Fujian) and Fuzhou 851 in relation to the 851 New Building
“Fuzhou 851”	Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (福州楊振華851生物工程技术研究開發有限公司), Fuzhou 851 is a wholly foreign-owned enterprise established in the PRC with limited liability, which is wholly owned by DJM Holding Ltd., a controlling shareholder of the Company that is wholly owned by Liu Dejian, an executive Director, and is a connected person of the Company under the Listing Rules
“Group”	the Company, its subsidiaries and such entities which are considered as subsidiaries of the Company under the applicable accounting standard and policy
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“NetDragon (BVI)”	NetDragon Websoft Inc., a company incorporated in BVI on 8 January 2003, which is wholly and beneficially owned by the Company
“NetDragon (Fujian)”	Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999, and through the supplemental structure contracts, TQ Digital and Fujian TQ Online Interactive Inc. are able to control NetDragon (Fujian) and accordingly, is regarded as a subsidiary of the Company
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) of US\$0.01 each in the share capital of the Company
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreements”	851 New Building Tenancy Agreement and Zhenhua Building Tenancy Agreement collectively
“TQ Digital”	Fujian TQ Digital Inc (福建天晴數碼有限公司), a wholly-foreign owned enterprise established in the PRC on 28 February 2003, which is wholly and beneficially owned by NetDragon (BVI)
“US\$”	United States dollars, the lawful currency of the United States of America
“Zhenhua Building”	Zhenhua Building (振華大廈), which is located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou City, Fujian Province, the PRC

“Zhenhua Building
Tenancy Agreement”

a tenancy agreement dated 19 January 2024 and entered into between NetDragon (Fujian) and Fuzhou 851 in relation to the Zhenhua Building

“%”

per cent.

For the purpose of this announcement, conversion of RMB into Hong Kong dollars is calculated at the conversion rate of RMB1 to HK\$1.1. This conversion rate is for purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be, converted at this or any other rates at all.

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

Hong Kong, 19 January 2024

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Liu Dejian, Dr. Leung Lim Kin, Simon, Mr. Liu Luyuan and Mr. Chen Hongzhan; one non-executive Director, namely Mr. Lin Dongliang; and three independent non-executive Directors, namely Mr. Li Sing Chung Matthias, Mr. Lee Kwan Hung, Eddie and Mr. Liu Sai Keung, Thomas.