

2021 INTERIM REPORT



網龍網絡控股有限公司

NETDRAGON WEBSOFT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 777



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MANAGEMENT DISCUSSION AND ANALYSIS

(1) FINANCIAL HIGHLIGHTS AND REVIEW

2021 First Half Financial Highlights

- Revenue was RMB3,356.2 million, representing an 18.9% increase YoY.
- Revenue from the games business was RMB1,847.5 million, representing 55.0% of the Group's total revenue and registering a 12.2% increase YoY.
- Revenue from the education business was RMB1,407.6 million, representing 41.9% of the Group's total revenue and registering a 23.7% increase YoY.
- Gross profit was RMB2,233.9 million, representing a 19.5% increase YoY.
- Core segmental profit¹ from the games business was RMB1,069.2 million, representing a 13.3% increase YoY.
- Core segmental loss¹ from the education business was RMB265.8 million, representing a 29.6% improvement YoY.
- EBITDA was RMB892.1 million, representing a 42.4% increase YoY.
- Non-GAAP operating profit² was RMB753.9 million, representing a 48.1% increase YoY.
- Profit attributable to owners of the Company was RMB430.7 million, representing a 28.0% increase YoY.
- Non-GAAP profit attributable to owners of the Company² was RMB566.7 million, representing a 26.1% increase YoY.
- Net cash balance was RMB4.1 billion as at 30 June 2021.
- The Company declared an interim dividend of HKD0.40 per ordinary share for the six months ended 30 June 2021, representing a 60.0% increase YoY.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) FINANCIAL HIGHLIGHTS AND REVIEW (Cont'd)

Segmental Financial Highlights

(RMB'000)	2021 First Half		2020 First Half	
	Gaming	Education	Gaming	Education
Revenue	1,847,548	1,407,641	1,647,334	1,137,941
Gross profit	1,765,923	431,055	1,583,529	285,208
Gross margin	95.6%	30.6%	96.1%	25.1%
Core segmental profit (loss) ¹	1,069,173	(265,772)	943,605	(377,294)
Segmental operating expenses ³				
– Research and development	(322,611)	(272,141)	(305,790)	(258,219)
– Selling and marketing	(200,100)	(235,190)	(178,765)	(242,625)
– Administrative	(170,948)	(172,155)	(157,773)	(141,526)

Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 8), but exclude non-core/operating, non-recurring or unallocated items including government grants, finance costs of financial instruments, intercompany finance costs, impairment loss (net of reversal), impairment of intangible assets and interest in an associate, fair value change and exchange loss on financial assets at fair value through profit or loss ("FVTPL"), fair value change and exchange difference on derivative financial instruments and interest and exchange difference on convertible and exchangeable bonds.

Note 2: To supplement the consolidated results of the Group prepared in accordance with HKFRSs, the use of non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP measures of the Group exclude share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, impairment of intangible assets and interest in an associate, fair value gain of financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, interest income on pledged bank deposits and exchange difference on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments.

Note 3: Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortisation and exchange difference that have been grouped into SG&A categories on the Company's reported consolidated financial statements, but cannot be allocated to specific business segments for purpose of calculating the segmental profit (loss) figures in accordance with HKFRS 8.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is excited about the overall achievements in the first half of 2021 and the strong momentum of both gaming and education business. Revenue increased by 18.9% year-on-year (“YoY”), reaching RMB3.4 billion, and at the same time the Group achieved a 59.2% YoY increase in operating profit. The outstanding operating performance is a testimony to unique core competencies built over years of investment in people, technologies and infrastructure.

Education business recorded one of the strongest growth performances in recent years. Riding on its global market leadership position, the Group’s flagship classroom technology subsidiary Promethean continued to gain further market share, resulting in a 25.2% YoY revenue growth on the back of fast-growing market demand for classroom technology. The Group continued to make progress with the execution of country strategy. With the recent signing of a memorandum of understanding (“MOU”) with the Ministry of Education in Thailand to launch the English Smart Classroom Lab project, where the Group will deliver a unique blended learning solution targeting the English-learning use case. In addition to Egypt and Thailand, where see the Group’s largest near-term revenue opportunities, the Group is in discussion to pursue multiple opportunities in several other countries. Given the strong business performance and confidence in the outlook, the Group has recently started to commence the planning work for the public listing of education business. Shareholders of the Company and potential investors should note that the possible public listing of education business as mentioned is still at preliminary stage; and if it proceeds, it will be subject to approvals from, among others, the relevant regulatory authorities including but not limited to the Hong Kong Stock Exchange, the final decision of the Board, market and other conditions. There is no assurance that the aforementioned possible public listing will proceed or as to when it may take place. Shareholders of the Company and potential investors are reminded to exercise caution when dealing in the securities of the Company.

Gaming business returned to double digit growth in both revenue and core segmental profit. The Group continued to see rising players’ activities and engagement in the Group’s flagship intellectual properties (“IP”) Eudemons, with the monthly active users (“MAU”) for the IP increasing by 5.5% YoY, which led to strong revenue growth for the IP. The Group’s flagship game Eudemons Online achieved yet another record high in monthly revenue of over RMB290 million. The Group’s two flagship mobile games, Eudemons Online Pocket Version and Eudemons Online Mobile, also saw significant increase in their MAU and daily active users (“DAU”). Meanwhile, the Group continued to execute various growth initiatives for two other flagship IPs, Conquer and Heroes Evolved, with the objective of building a solid foundation to drive long-term growth. Looking forward, the Group has a robust pipeline of new gaming titles which will further expand and diversify the portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

The Group is also committed to maximizing the capital return for the shareholders and at the same time be able to invest in the future. To follow through on this long-term commitment, the Group would like to take the opportunity to announce that the board has authorized (1) a committed 3-year share buy-back program up to a total repurchased amount of USD300 million and subject to the buy-back mandate approved by the Shareholders at the annual general meeting in each year, being 10% of the issued share capital, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Codes on Takeovers and Mergers and Share Buy-Backs, and (2) the increase of interim dividend by 60% to HKD0.40 per ordinary share. The decision to commit to this share buy-back program and increasing cash dividend underscores the confidence in the long-term business outlook and the future cash generation abilities. The Group will implement these measures while maintaining a strong balance sheet and liquidity profile, as the Group expects the free cash flow generated each year will be more than sufficient to fund the share buy-back and dividends combined. Meanwhile, the net cash as of end of the first half of 2021 sits at RMB4.1 billion, which will enable the Group to capitalize on strategic and acquisition opportunities going forward.

Gaming Business

During the period, the gaming business continued the momentum from the second half of last year with both revenue and core segmental profit returning to double digit growth. Revenue of gaming business increased by 12.2% YoY to RMB1,847.5 million, while core segmental profit increased by 13.3% YoY to 1,069.2 million.

Eudemons, the Group's flagship IP, continued to achieve strong performance with revenue growing 14.1% YoY and 5.3% sequentially. The growth was driven primarily by new gameplay techniques, enriched contents and implementation of effective localized operations in overseas markets. During the period, Eudemons Online Pocket Version and Eudemons Online Mobile achieved combined MAU and DAU increase of 25.7% and 20.1%, respectively, as the Group finetuned the user acquisition strategy, enhanced the quality of user engagement and launched three new expansion packs together with robust marketing activities. The Group also continued to run IP crossovers including a partnership with the movie "Godzilla vs. Kong" to boost players' spending.

Conquer Online recorded a revenue growth of 3.7% YoY. The Group continue to see tremendous global opportunities for the Conquer IP as the Group aim to replicate the successful model in Egypt to multiple countries. This started to bear fruit in countries such as the Philippines, the US, Canada and Saudi Arabia in the first half of 2021, and while the Group scale the revenue in these markets, the Group expects to enter into more countries, particularly in Latin America and Southeast Asia, in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

Gaming Business (Cont'd)

The Group continued to implement its growth initiatives for Heroes Evolved IP, including increasing the investment in hero skins as well as enriching the RPG gameplay, resulting in a 24.5% YoY revenue increase for the Heroes Evolved PC Version. The Group has also made positive progress with mobile strategy for this IP, including strengthening the gameplay and monetization of Heroes Evolved Pocket Version, as well as developing a PC-mobile cross platform version.

In the context of recent regulatory trend in the gaming sector, the Group has been actively responding to the regulatory changes, and the Group has taken all necessary steps to ensure that gaming business is in compliant with all the relevant regulations. During the first half of 2021, players under 18 years of age contributed less than 1% of gaming revenue, and therefore the anti-addiction regulatory measures are not expected to have a material impact on the business. In addition, the Group has also obtained the necessary gaming license approval for new games that the Group is planning to launch in the near term.

Looking forward, the Group will continue to drive revenue and profit growth by maximizing the Group's IP value and optimizing the game portfolio through the launch of new games. The Group's pipeline is robust with multiple new games under development and testing, including Eudemons Mobile 2 and Under Oath (a new IP). In the coming months, the Group also expects to make meaningful progress in strengthening the Neopets IP through strong marketing initiatives, as well as the planned launch of a new Neopets Match-3 game.

Education Business

In the first half of 2021, the education business recorded a YoY growth of 23.7% to RMB1,407.6 million. The revenue growth combined with cost management effort resulted in the core segmental loss of the education business to narrow significantly by 29.6% YoY to RMB265.8 million. Under the backdrop of the Covid-19 outbreak, the demand for blended learning solutions and EdTech continued to pick up during the period. Governments around the world have been on the forefront to promote online education and distance learning to ensure students' learning is undisrupted. The Group believes that Covid-19 pandemic has resulted in a paradigm shift where a blended learning model to make quality education available anywhere, anytime has become a necessity and this trend will sustain in the long run.

Leveraging the favourable macro trend, Promethean achieved significant sales growth in the first half of 2021, with a YoY growth of 28.1% in shipment units. Product mix enhancement served to drive ASP growth, which together with cost discipline resulted in increase of the gross margin from 27.1% to 33.0% YoY. Promethean continued to maintain its position as the largest player in the international K-12 interactive panel market as its market share increased by 3.5 percentage points HoH to 24.5%. In particular, Promethean gained market share in its top three major markets including the U.S., the U.K., and Germany. With a strong sales backlog at the end of the first half of 2021, the Group is confident in the revenue growth for Promethean in the second half of 2021 as it further consolidates its leadership position in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

Education Business (Cont'd)

The Group continued to make progress with the execution of country strategy. The Group's discussion in Egypt is on track towards securing the first large-scale order under the signed MOU. And in August 2021, the Group achieved another milestone in bringing blended learning solutions to a key ASEAN country. The Group signed a MOU with the Office of the Basic Education Commission under the Ministry of Education Thailand to launch the English Smart Classroom Lab Project. This project will aim to help students in Thailand take advantage of technologies to gain deep understanding of the English language while ensuring that students at rural area get the same quality education as students in big cities. The Group has also been in discussion to pursue multiple opportunities in several other countries, as well as exploring acquisitions and investment opportunities that would accelerate the expansion of the geographical footprints.

In China, the "Opinions on Further Alleviating the Burden of Homework and After-school Tutoring for Students in Compulsory Education" (the "Opinions") were announced by the General Office of the CPC Central Committee and the General Office of the State Council on 24 July 2021 and have affected many EdTech companies in China. However, the Group is not negatively impacted as the Group has no after-school tutoring business. On the contrary, as the Group's business model focus in China has always been on to-G and to-B markets, the current regulatory environment is expected to bring new market opportunities as greater emphasis is now put on strengthening in-school education. In the first half of 2021, the Group signed a strategic cooperation framework agreement with the National Center for Educational Technology ("NCET"), a unit directly affiliated to the Chinese Ministry of Education, to develop more education products and projects in the areas of virtual simulation technology, AI, online learning and gamified education for potential rollout in certain regions across the country. Leveraging such in-depth cooperation with NCET, the Group is in a strong position to capitalize on the market opportunities arising from the new regulatory environment that favours partnership between government and corporates to improve in-school education quality across the country.

Looking forward, the Group is optimistic about the growth trajectory in the second half of 2021 as the Group continues to build on market leadership position, broad market coverage, and ability to execute country-level rollouts. Furthermore, with the continuous growth in the top line and increasing operating leverage, the Group believes that the core segmental loss of education business will continue to narrow in the second half of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

Stock Buy-Back Program

The Board of the Company has authorized a committed share buyback program of up to USD300 million to be carried out within three years. The objective of the program is to maximize the capital return for the shareholders and at the same time maintain the cash the Group needs to invest in the future, including mergers and acquisitions, and to provide flexibility of responding effectively to strategic opportunities. With the announcement of this program, the Group aims to return a substantial portion of free cash flow to investors in the next three years via a combination of share buyback and dividends. Meanwhile, the net cash as of 30 June 2021 is RMB4.1 billion, which will enable the Group to capitalize on future acquisition, investment and strategic opportunities.

The detailed execution of the buyback program will be on the open market carried out on the Hong Kong Stock Exchange in accordance with (and subject to limits prescribed by) the Group's general mandate to buy back Shares granted by its shareholders at the annual general meeting for the relevant year, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Codes on Takeovers and Mergers and Share Buy-Backs and in accordance with applicable securities laws. The extent to which the Company repurchases its shares, the number of shares and the timing of any repurchases will depend on general market conditions, regulatory requirements, and other considerations.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

Corporate Development Milestones and Awards for the First Half of 2021

Corporate Development Milestones/Recognitions

- | | |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| April | <ul style="list-style-type: none">• Fujian Province Huayu Education Technology Co. Ltd.* (福建省華漁教育科技有限公司) was awarded "Unicorn Enterprise"* (獨角獸企業) by the Office of the Construction Leading Group of Digital Fujian of Fujian Province *(福建省數字福建建設領導小組辦公室)
• Fujian Province NetDragon Putian Education Technology Co. Ltd.* (福建省網龍普天教育科技有限公司) was awarded "Gazelle Enterprise"* (瞪羚企業) by the Office of the Construction Leading Group of Digital Fujian of Fujian Province *(福建省數字福建建設領導小組辦公室) |
| June | <ul style="list-style-type: none">• Fujian NetDragon Websoft Co. Ltd.* (福建網龍計算機網絡信息技術有限公司) was awarded "Fuzhou Gulou District Copyright Collaboration Protection Associate"* (福州市鼓樓區著作權協同保護聯繫企業) by People's Procuratorate of Gulou District, Fuzhou City and the Gulou Brigade of Fuzhou Cultural Market Comprehensive Law Enforcement Detachment* (福州市鼓樓區人民檢察院、福州市文化市場綜合執法支隊鼓樓大隊)
• Fujian TQ Digital Inc. (福建天晴數碼有限公司) ("TQ Digital") was awarded "2021 Fujian Provincial Leading Enterprise in Industry and Information Technology"* (2021年福建省工業和信息化省級龍頭企業) by the Department of Industry and Information Technology of Fujian Province* (福建省工業和信息化廳) |

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(3) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2021, the Group had pledged bank deposits, bank deposits with original maturity over three months, restricted bank balances and bank balances and cash of approximately RMB4,397.5 million (31 December 2020: RMB4,309.1 million).

As at 30 June 2021, the Group had net current assets of approximately RMB4,163.8 million as compared with approximately RMB4,162.6 million as at 31 December 2020.

(4) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.04 (31 December 2020: 0.05). As at 30 June 2021, total bank borrowings of the Group amounted to approximately RMB291.8 million (31 December 2020: RMB345.7 million) which included variable-rate loan of RMB129.3 million (31 December 2020: RMB273.1 million) and fixed-rate loan of RMB162.5 million (31 December 2020: RMB72.6 million). The bank borrowings of RMB256.9 million (31 December 2020: RMB310.5 million) were secured by a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and its subsidiaries and a pledged bank deposit and the remaining bank borrowings of RMB34.9 million (31 December 2020: RMB35.2 million) were unsecured.

(5) CAPITAL STRUCTURE

As at 30 June 2021, the Group's total equity amounted to approximately RMB6,852.6 million (31 December 2020: RMB6,651.9 million).

(6) CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any material contingent liabilities (31 December 2020: Nil).

(7) ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Saved as disclosed in this interim report, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures as at 30 June 2021.

During the period, the Group did not have other plans for material investments and capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

(8) FOREIGN CURRENCY RISKS

The Group operates mainly in the People's Republic of China (the "PRC"), the United States of America and the United Kingdom. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is Renminbi, US dollar and Great Britain Pound. However, the Group also has operations in Hong Kong, Australia and Europe and the business transactions conducted in these areas during the period were mainly denominated and settled in Hong Kong dollar, Australian dollar and European dollar respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner.

(9) CREDIT RISKS

As at 30 June 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk of trade receivables, contract assets, other receivables, refundable rental deposits and loan receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under expected credit loss ("ECL") model upon application of HKFRS 9 on trade balances based on provision matrix, and trade receivables and contract assets which are credit-impaired are assessed for ECL individually.

The credit risk on restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks located in the PRC. In this regard, the directors of the Company consider that the ECL on these balances is insignificant.

The Group regularly monitors the business performance of the associates, joint ventures and related companies. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. Based on the assessment of the management, the ECL for these balances were insignificant and thus no loss allowance was recognised.

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings and there is no significant concentration of credit risk.

The Group has no significant concentration of credit risk on trade receivables, other receivables and contract assets with exposure spreading over a number of counterparties and customers.

MANAGEMENT DISCUSSION AND ANALYSIS

(10) LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

(11) STAFF INFORMATION

For the period under review, the breakdown of the number of employees of the Group is set out below:

	At 30 June 2021	At 31 December 2020	At 30 June 2020
Research and development	3,378	3,721	3,726
Selling and marketing	1,305	1,386	1,456
Accounting, finance and general administration	1,043	1,088	968
Production	238	247	275
Total	5,964	6,442	6,425

(12) PERFORMANCE EVALUATION

Human Resources

1. The Group had its overall staff headcount of 5,964 as at 30 June 2021.
2. In the first half of 2021, talents were upgraded and more focused by integrating our corporate strategies and objectives. A large number of talents in various professional fields were attracted by our extensive business platform and rapidly growing business trend and most of them were elites in the areas of games and education, which has continuously helped the Company absorbing best available talents. Meanwhile, the Group carried out the on-line nation-wide Spring campus recruitment campaigns in 2021 for key renowned universities, to continuously bring in new blood into the Company. Moreover, in respect of on-campus recruitment brand, we were awarded the Most Intelligent Employer of the Year of "2020 Best Employer"* (2020中國年度最佳雇主最具智造精神獎) organised and evaluated by Zhaopin.com and the honour of "Outstanding Employer in CSR Practice"* (CSR實踐非凡雇主) awarded by Liepin.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(12) PERFORMANCE EVALUATION (Cont'd)

Human Resources (Cont'd)

3. Making the prevention and control of the epidemic a regular practice. On the one hand, we paid close attention to and followed the government policy, quickly upgraded the preventive and control measures of the Company, and implemented the main responsibility of prevention and control of the epidemic in the enterprise. On the other hand, we actively responded to the call of the government department for vaccination for the COVID-19, and organised vaccination for employees by securing vaccination quotas and arranging special vaccination sites to protect the health of employees and build a universal immunization barrier.
4. NetDragon was active in exploring the best model for organizational management, with a more open, autonomous and liberal culture and the construction and implementation of related mechanisms. Based on the affairs, we are actively exploring flexible employment models, aiming to recruit global talents and optimize the talent structure of the organization. While exploring the successful experience by using business tools as a grip for organizing knowledge on a trial basis, the technologies and capabilities which will enable external markets in the future, we are committed to building a borderless organization, a knowledge-based organisation and an empowering platform organization. We will continue to promote the improvement of organizational efficiency, reduce ineffective approval processes through the structuring of process documents, thereby enhancing the internal management efficiency and promoting the disclosure of internal information.
5. In terms of cadre management, we continued to improve the cadre management system of the Company and promote its implementation. We have sorted out and optimized the standards of the cadre employment base on the "corporate affair-oriented" concept and carried out training programs on important management matters for the cadres. We have carried out the evaluation and selection of cadres in a result-oriented manner, improved the mechanism of promotion and dismissal, promoted the upgrading of talents in the cadre team, and devoted ourselves to building a culture-compatible, competent and effective cadre team.
6. In terms of performance management, we practiced the management concept of affairs-centered and independent management, assisted in the implementation of strategies and the breakdown of goals, and established an organizational and personal goal and performance assessment system based on this management concept to improve the efficiency and effectiveness of performance management and create value for the organisation and business. We promoted the corporate affair-oriented performance appraisal, promoted the application of AI in the performance management and talent upgrading, and paid attention to the proactiveness and performance improvement of the staff with poor performance. Meanwhile, in terms of compensation and benefits, we continued to pay attention to the salary dynamics of the market to maintain the competitiveness of remuneration packages; we formulated differentiated compensation strategies and allocated resources to key talents who are the main creators of the corporate values. We further explored the corporate affair-oriented payroll model to boost employee motivation and improve their work productivity; we continued to improve the welfare systems of the company, introduced digital AI management, promoted the standardization and automation of processes, and improved the satisfaction rate of employees.

MANAGEMENT DISCUSSION AND ANALYSIS

(12) PERFORMANCE EVALUATION (Cont'd)

Human Resources (Cont'd)

7. In terms of internal talent cultivation, we adopted a combination of corporate simulation courses and offline experience-based trainings to respond to the needs of corporate affair-oriented management, and started from the perspectives of new management concepts, excellent working methods, education concepts and business products to meet the learning needs of personnel in the development of the organisation in terms of changes in awareness, cognition and skills. Through AI data analysis, deliberate exercises and business tools, we promoted the implementation of the corporate affair-oriented concept. In terms of talent development for business departments, we launched special training in both working skills and working awareness to enhance their working ability.
8. The Human Resources Shared Services Platform (SSC) integrated the shared services of various departments in the Group, continuously optimized the standardized service systems to provide better services to employees; regularly fed back data reports to provide data support for COE decisions; promoted AI intelligence, aiming at upgrading the experience of employees, improving the quality of SSC shared services and ensuring service satisfaction.

(13) STAFF TRAININGS

I. Brief introduction of NetDragon University

NetDragon University is a base for nurturing management and technological talents of the Group. As a powerful support and an important part of the overall strategy of the Group, NetDragon University is committed to providing professional and systematic training services to staff. In 2021, NetDragon University assumed the important role of supporting and empowering knowledge organisation for the whole organization, actively promoting the implementation of knowledge organisation affairs; practicing the concept of Huayu Education, through knowledge precipitation and best practice extraction, supplemented by different learning means and learning products, to realize the overall professional capacity of NetDragon, and help the career development of NetDragon students and the upgrading of NetDragon talents.

MANAGEMENT DISCUSSION AND ANALYSIS

(13) STAFF TRAININGS (Cont'd)

II. Achievements in the first half of 2021

In line with the strategic development and key business development of the Company, in the first half of 2021, the enterprise-school cooperation department and Netdragon Digital Education Town formed an integrated system of "industry-teaching-creation" and continued to promote the research and study projects in the Education Town; each faculty group made every effort to assist the Company in achieving the annual goals of education business-related projects and improving the skills of key positions. In response to the "corporate affair-oriented" concept put forward by the Company, the Company implemented the value of learning culture, carried out mandatory learning for all employees, drove the learning atmosphere and empowered employees' thinking through the quality content production; helped promote the knowledge organisation of the Company, developed tools for certification development affairs, and promoted the implementation of the certification development affairs of the Company; in terms of management training, the Company established a learning zone for management posts, which iterated management post courses and promoted management post learning to help the Company continuously upgrade its management.

In the first half of 2021, NetDragon University organised a total of 103 various training events with total attendance of 107,083 participants (excluding external forums and teaching within NetDragon University).

1. External Training:

- (1) NetDragon University and Netdragon Digital Education Town formed an integrated system of "industry-teaching-creation", developed and designed four types of curriculum systems and 23 study courses integrated with academic subjects for the Education Town's study programs, attracting a total of 5,000 people to the town.
- (2) Through expansion training to support the attraction of Digital Education Town, serving 4,493 people, including 19 sessions of quality development for the external customer team of the Party Construction Institute, 1 session of winter camp for research and technology sports, and 16 sessions of quality development for research projects, with an average satisfaction score of 4.85.
- (3) CAFA design methodology: We completed a round of upgrade of design methodology teaching and a round of promotion of AI courseware + practical teaching and electronic textbooks in colleges and universities.

MANAGEMENT DISCUSSION AND ANALYSIS

(13) STAFF TRAININGS (Cont'd)

II. Achievements in the first half of 2021 (Cont'd)

2. *Internal Training:*

Mandatory learning programs for all employees:

According to the “corporate affair-oriented” management needs of the Company, we have designed and developed more than 20 online series of courses, one course per week, which are launched from the perspectives of new management concepts, excellent working methods, education concepts and business products, with clear corporate characteristics and case practices, and each course has achieved 90% of participation and completion rate which satisfied the learning needs of personnel in the development of the organisation in terms of changes in awareness, cognition and skills. In the first half of 2021, we completed 22 delivery tasks with 98,000 participants.

Skills promotion project for key positions:

We continued to push forward the implementation of the requirements for upgrading key positions, assisted the education business to promote agile development, and promoted the upgrade of the research and development system; launched a special Unity source code training program to improve the 3D development capabilities of the Company; promoted the upgrade of service awareness in Taihe Yayu Company to improve the working atmosphere and enhance the service experience; used affairs tools as a grip, analyzed personnel skills data, and formed The case study of core value and roadmap for deliberate practice, covering 90 senior designers in the design center; in-depth talent training cooperation with Fuzhou University and Fujian Normal University, etc., sorting out the pre-service training program for 8 key positions in each center, and recruiting more than 40 quality graduates for the Company in total with the new school recruitment model of training for recruitment.

Senior management seminar projects:

According to the voting results of the issues in the “Vice President Strategy Discussion Pool”, more than 300 senior management students were invited to participate in two rounds of discussion sessions. 110 people participated in two rounds of discussion sessions in order to conduct team discussions and make collective efforts for the strategic business issues of the Company, and 92 viewpoints and countermeasures were collected to support the strategic business development needs of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

(13) STAFF TRAININGS (Cont'd)

II. Achievements in the first half of 2021 (Cont'd)

2. *Internal Training: (Cont'd)*

Management training projects:

We have launched an online management post learning zone, which includes mandatory management post courses based on the management requirements of the Company and excellent management theories in the industry; combined with the problems encountered in the actual work of the management post, we help the management post to improve their management ability and help the Company to continuously upgrade its management through the form of survey and research, online micro-class pre-study and offline workshop.

3. *Routine training projects:*

Skills training:

In the first half of 2021, NetDragon University organised a total of 43 trainings on skills with 3,262 participants, including 18 NetDragon Skills Forums with 1,445 participants.

Experiential training:

The development of 4 teams was completed with 77 participants.

New staff training:

A total of 9 training sessions were organised for new staff with 892 participants.

4. *Certification projects:*

Internal affairs certification:

We have completed the design of the certification development methodology tools; completed the sorting out of the implementation process of the certification operation methodology and the design of the electronic documentation of the certification operation; completed the development and optimization of the certification development methodology course series, and completed the online and offline teaching of TOPTOON customers; completed the development of eight typical cases in the non-objective category; and in the first half of 2021, completed the development/optimization/cancellation/reuse of a total of 115 subjects.

MANAGEMENT DISCUSSION AND ANALYSIS

(13) STAFF TRAININGS (Cont'd)

II. Achievements in the first half of 2021 (Cont'd)

5. *Construction of Platform Function and Content:*

Construction of platform function:

We launched a new version of the course module (teaching class), which covers the original open classes and adds classroom practice capabilities and offline session functions; providing sharing functions at the learning resource level (including the web end); supporting oral questions in the examination module; supporting the validation of 2 simulated training courses, and providing feedback to submit function-related suggestions to help optimize the learning experience.

Construction of platform content:

In the first half of 2021, a total of 752 courses were uploaded, including 43 training certification courses.

Platform operation:

During the first half of 2021, the accumulative learning time was 48,641.91 hours with average learning time per person of 7.15 hours. For the three examination questions per day at the Company level: 181 examinations were organized with average daily participation of 982 persons.

Overview of administrator cultivation:

In the first half of 2021, a total of 21 administrators were cultivated and the accumulative number of administrators cultivated amounted to 282 persons.

MANAGEMENT DISCUSSION AND ANALYSIS

(14) CORPORATE CULTURE

Passion

We are passionate about work and collaboration with colleagues. We consider our work as a career and contribute our full efforts. We enjoy the satisfaction from work, we are optimistic and positive, and are able to disseminate such positive energy in the daily interactions with colleagues, together with mutual trust, support and encouragement.

Learning

Learning is a habit of every staff in the Group. We always have curiosity and the urge to learn. We will proactively invest time and effort in learning, apply the skills we have learnt and expand our capabilities. We are good at self-examination and draw conclusions from happenings around us, and are willing to share and exchange ideas with others to promote mutual teaching and learning.

Innovation

Innovation is the driving force behind the success of the Group. We embrace changes, continuously explore and attempt new and more effective concepts and methods, in order to launch new technologies and new products.

Aggressiveness

We are featured by aggressiveness. We like to distinguish ourselves by mastering opportunities, expressing opinions and ideas, being responsible for or participating in the projects which arouse our interest, gaining resources and support to win market opportunities and honestly communicating with others on development requirement. We believe that if everyone volunteers to put up their hands, internal impetus and team power will be inspired to expand our business.

Pursuit of excellence

Pursuit of excellence is a working standard for our staff. We aim for high aspirations and excellence, self-challenge and surpassed expectations. We plan several steps ahead, striving to provide customers with the highest quality products and services, and constantly challenge our own potentials while doing our best.

Fairness

Fairness is the working atmosphere we promote. The Group strives to create a working atmosphere with fair allocation, fair procedures, public information and mutual respect. Through a public process and open supervision, the Group ensures that results are fair and hopes that all employees can treat everything and everyone objectively and equally.

Customer comes first

Customer comes first is our philosophy in product design and services. Group staff have an acute judgment on market and customers. Through technology and services, customer requirements are satisfied and steered quickly, and through continuous improvements in customer experience, we can create value for customers and acquire competitive advantages. Each staff also adheres to the concept even when providing services to our internal customers.

MANAGEMENT DISCUSSION AND ANALYSIS

(15) INTERIM DIVIDEND

On 26 August 2021, the Board has resolved to declare an interim dividend of HKD0.40 per share for the six months ended 30 June 2021 (2020: HKD0.25 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 10 September 2021. It is expected that the interim dividend will be distributed on or before 18 October 2021.

(16) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 10 September 2021 to Monday, 13 September 2021, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2021, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 9 September 2021.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	250,822,457 (1)	45.07%
Leung Lim Kin, Simon <i>(Note 4)</i>	The Company	Beneficial owner	5,446,310 (1)	0.98%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and beneficiary of certain trust	250,822,457 (1)	45.07%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (1)	99.96%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	250,822,457 (1)	45.07%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (1)	99.96%

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Chen Hongzhan <i>(Note 5)</i>	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.01%
Chao Guowei, Charles <i>(Note 6)</i>	The Company	Beneficial owner	438,500 (L)	0.08%
Lee Kwan Hung, Eddie <i>(Note 7)</i>	The Company	Beneficial owner	632,519 (L)	0.11%
Liu Sai Keung, Thomas <i>(Note 8)</i>	The Company	Beneficial owner	818,019 (L)	0.15%

Notes:

- The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
- Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 34.33% of the issued voting shares of the Company. Liu Dejian is also interested in 0.37% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

Liu Luyuan is interested in 4.17% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 21,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

Zheng Hui is interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.42% of the issued voting shares of the Company. Zheng Hui is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 2.50% of the issued voting shares of the Company. Zheng Hui is also interested in 0.27% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 45.07% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Notes: (Cont'd)

3. Liu Luyuan and Zheng Hui are interested in 0.07% and 99.89%, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") respectively. Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).
4. Leung Lim Kin, Simon is interested in 0.98% of the issued voting shares of the Company which is represented by beneficial interest of 1,446,310 shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.
5. Chen Hongzhan is interested in 2.01% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. Chao Guowei, Charles is interested in 0.08% of the issued voting shares of the Company which is the underlying shares of interest of 438,500 shares options granted by the Company.
7. Lee Kwan Hung, Eddie is interested in 0.11% of the issued voting shares of the Company which is represented by personal interest of 114,519 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.15% of the issued voting shares of the Company which is represented by personal interest of 300,019 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2021, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as is known to the Directors, as at 30 June 2021, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	34.33%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	65,533,320 (L)	11.78%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	65,533,320 (L)	11.78%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	61,609,135 (L)	11.07%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Notes: (Cont'd)

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 1.95%, 7.57%, 1.55% and 0.71% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
- a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investors Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the issued voting shares of any other member of the Group as at 30 June 2021.

OTHER INFORMATION

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "2018 Share Option Scheme") to replace the existing share option scheme which expired on 12 June 2018 (the "2008 Share Option Scheme"). Details of the share options outstanding and movement during the period ended 30 June 2021 are as follows:

2008 Share Option Scheme

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options				As at
			1 January 2021	Granted	Exercised	Cancelled	Lapsed	30 June 2021
Independent non-executive Directors								
Chao Guowei, Charles	04.12.2013	15.72	238,500	-	-	-	-	238,500
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Lee Kwan Hung, Eddie	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Others								
Employees	28.04.2011	4.80	341,867	-	46,192	-	295,675	-
	22.07.2011	4.60	8,000	-	-	-	-	8,000
	23.04.2012	5.74	127,517	-	9,825	-	-	117,692
	12.09.2012	7.20	50,250	-	-	-	-	50,250
	16.01.2013	11.164	131,250	-	21,500	-	-	109,750
	25.04.2014	14.66	278,000	-	-	-	-	278,000
Total			<u>2,111,384</u>	<u>-</u>	<u>77,517</u>	<u>-</u>	<u>295,675</u>	<u>1,738,192</u>

OTHER INFORMATION

SHARE OPTION SCHEME (Cont'd)

2018 Share Option Scheme

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options				As at
			1 January 2021	Granted	Exercised	Cancelled	Lapsed	30 June 2021
Executive Directors								
Leung Lim Kin, Simon	24.01.2020	21.07	4,000,000	-	-	-	-	4,000,000
Independent non-executive Directors								
Chao Guowei, Charles	24.01.2020	21.07	100,000	-	-	-	-	100,000
Lee Kwan Hung, Eddie	24.01.2020	21.07	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	24.01.2020	21.07	100,000	-	-	-	-	100,000
Others								
Employees	24.01.2020	21.07	<u>2,000,000</u>	-	-	-	1,000,000	<u>1,000,000</u>
Total			<u>6,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>5,300,000</u>

OTHER INFORMATION

SHARE AWARD SCHEME

The Company

The Board approved and adopted the share award scheme (the "NetDragon Share Award Scheme") on 2 September 2008 and it was amended by the resolution passed on 31 August 2018 to extend a period of 10 years, in which selected employees of the Group are entitled to participate. Unless early terminated by the Board, the NetDragon Share Award Scheme shall be valid and effective for a term of ten years commencing on 31 August 2018. The Board shall not grant any award of shares if the nominal value of awards in aggregate granted by the Board under the NetDragon Share Award Scheme is over 10% of the issued capital of the Company from time to time.

Pursuant to the rules of the NetDragon Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the "Trustee"), for the purpose of administering the NetDragon Share Award Scheme and holding the awarded shares before they are vested.

Details of the shares awarded under the NetDragon Share Award Scheme during the period ended 30 June 2021 are as follows:

Grantee	Date of grant	Average price per share (HKD) (Note)	Outstanding at	Awards			Outstanding at	Vesting period
			1 January 2021	Granted during period	vested during period	Forfeited during period	30 June 2021	
Executive Directors								
Leung Lim Kin, Simon	19 April 2018	18.96	436,320	-	190,890	27,270	218,160	30 April 2018 – 30 April 2022
Leung Lim Kin, Simon	26 March 2021	18.96	-	120,000	120,000	-	-	26 March 2021
Others								
Employees	19 April 2018	18.96	340,320	-	112,790	79,450	148,080	30 April 2018 – 30 April 2022
			776,640	120,000	423,680	106,720	366,240	

Note: These shares were purchased by the Trustee of the Share Award Scheme at an average price of HKD18.96 per share.

OTHER INFORMATION

SHARE AWARD SCHEME (Cont'd)

The Company (Cont'd)

366,240 awarded shares granted to a number of selected participants, including directors and employees, were outstanding as at 30 June 2021. The awarded shares, will be transferred to the selected directors or employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

Subject to the acceptance by the relevant selected employees, such transferred awarded shares may be held by the selected employees in their own names or such nominees, including any trustees, as designated by the selected employees.

Best Assistant Education Online Limited ("Best Assistant")

On 7 August 2012, Best Assistant adopted a share award scheme as amended on 13 February 2015 (the "Best Assistant Share Award Scheme") in which selected participants include senior management employees of Best Assistant and/or its subsidiaries ("Best Assistant Group"), consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries (excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

Subject to early termination, the Best Assistant Share Award Scheme shall be valid and effective for a term of ten years commencing on 7 August 2012. Best Assistant may also transfer shares awarded under the Best Assistant Share Award Scheme whether vested or unvested to other trusts and if there is a change in control of Best Assistant, all awarded shares shall immediately be vested. The board of directors of Best Assistant may also waive any vesting conditions with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha. The maximum number of shares which may be granted to the participants under the Best Assistant Share Award Scheme shall not exceed ten percent (10%) of the total issued share capital of Best Assistant from time to time or such number of shares as determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

Pursuant to the rules of the Best Assistant Share Award Scheme, Best Assistant has signed an agreement with the Trustee, for the purpose of administering the Best Assistant Share Award Scheme and holding the awarded shares before they are vested.

Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) confirmation from Best Assistant that all vesting conditions having been fulfilled, the awarded shares will be transferred to the selected participants at nil consideration upon vesting.

As at 30 June 2021, no awarded shares were granted under the Best Assistant Share Award Scheme.

OTHER INFORMATION

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into a subscription agreement ("Series A Agreement") with IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (together referred to as "IDG Investors"), Vertex Legacy Continuation Fund Pte Ltd. (formerly held by Vertex Asia Fund Pte. Ltd.) ("Vertex"), Hong Kong Alpha Group Limited (formerly known as Alpha Animation and Culture (Hong Kong) Company Limited) ("Alpha"), Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company (collectively referred to as "Series A Investors") for the allotment and issue of an aggregate of 180,914,513 Series A preferred Shares ("Series A Preferred Shares") for a total consideration of USD52,500,000 (equivalent to approximately HKD409.5 million). The Series A Agreement and the issue and allotment of the Series A Preferred Shares were completed on 13 February 2015.

Assuming all of the Series A Preferred Shares are fully converted into ordinary shares of Best Assistant, the Company's interest in ordinary shares of Best Assistant will be reduced from 90.08% to approximately 83.19%.

As at 30 June 2021, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

ACQUISITION OF EDMODO, INC. AND ISSUE OF SERIES B PREFERRED SHARES BY BEST ASSISTANT

On 6 April 2018, Best Assistant, Digital Train Limited ("Digital Train") as purchaser, a wholly-owned subsidiary of Best Assistant, Educate Merger Sub, Inc. ("Merger Sub"), a wholly-owned subsidiary of the purchaser, Edmodo, Inc. ("Edmodo"), Fortis Advisors LLC, in its capacity as representative of the shareholders of Edmodo, and the Company, solely with respect as guarantor for the timely performance of the obligations of Best Assistant and Digital Train entered into an agreement and plan of merger (the "Agreement and Plan of Merger"), pursuant to which Digital Train acquired Edmodo, for consideration in the form of cash and stock collectively valued in the amount of USD137,500,000, by way of merger under the laws of the State of Delaware.

Upon closing which took place on 2 May 2018, the Merger Sub merged with and into Edmodo, the separate corporate existence of Merger Sub ceased, and Edmodo shall continue its corporate existence as a wholly owned subsidiary of Digital Train in accordance with Delaware law.

The consideration (subject to downward adjustment as provided in the Agreement) was satisfied by (i) payment of an amount in cash equal to USD15,000,000 and (ii) the issue of 112,560,245 Best Assistant Series B Shares.

As at 30 June 2021, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

OTHER INFORMATION

ISSUE OF SECURED CONVERTIBLE AND EXCHANGEABLE BONDS BY BEST ASSISTANT AND ISSUE OF UNLISTED WARRANT UNDER SPECIFIC MANDATE

On 10 November 2019, the Company, Best Assistant, NetDragon BVI, Digital Train, Promethean World Limited, Nurture Education (Cayman) Limited (the "Investor"), Madison Pacific Trust Limited as the Agent and the Security Agent entered into the Bond and Warrant Purchase Agreement (the "Purchase Agreement"), pursuant to which (i) Best Assistant agreed to issue to the Investor and the Investor agreed to purchase the Convertible and Exchangeable Bonds in the aggregate principal amount of USD150 million (equivalent to approximately HKD1,174.5 million); and (ii) simultaneously with the issue of the Convertible and Exchangeable Bonds, the Company would issue to the Investor the unlisted warrants. The issue of Convertible and Exchangeable Bonds and the Warrants to the Investor is a strategic collaboration with the Investor, an institutional investor with extensive experience and active investments in the Greater China education sector.

Closing of the Purchase Agreement took place on 9 March 2020, and Best Assistant has issued to the Investor, Convertible and Exchangeable Bonds which can be converted to 279,510,479 ordinary shares of Best Assistant, representing 11.16% of the total outstanding share capital of Best Assistant on a fully diluted and as-converted basis, and the Company has issued the unlisted Warrant to the Investor which can be converted to 11,502,220 Warrant Shares of the Company.

As at 30 June 2021, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistant and no warrants were converted into shares of the Company.

TOP-UP PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 13 February 2020, the Company entered into the placing and subscription agreement (the "Placing and Subscription Agreement") with DJM Holding Ltd. (the "Vendor"), Mr. Liu Dejian and China International Capital Corporation Hong Kong Securities Limited (the "Placing Agent"), pursuant to which (i) the Vendor agreed to place, through the Placing Agent, on a fully underwritten basis, 33,000,000 ordinary shares held by the Vendor (the "Top-up Placing Shares") at the price of HKD23.70 per Top-up Placing Share; and (ii) the Vendor conditionally agreed to subscribe for 33,000,000 new ordinary Shares to be subscribed for by the Vendor, being the number of the Top-up Placing Shares actually placed by the Placing Agent on behalf of the Vendor pursuant to the terms of the Placing and Subscription Agreement (the "Top-up Subscription Shares") at the Price of HKD23.70 per Top-up Subscription Share (the "Top-up Placing and Subscription"). The aggregate nominal value of the Top-up Subscription Shares is USD330,000. The closing price per share as quoted on the Stock Exchange on the date of the Placing and Subscription Agreement was HKD23.20. The Directors are of the view that the Top-up Placing and Subscription will benefit the Group's long term development and broaden the Company's equity base to facilitate the future growth and development of its business.

OTHER INFORMATION

TOP-UP PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE (Cont'd)

Completion of the Top-up Placing took place on 17 February 2020 and the Top-up Subscription took place on 25 February 2020. A total of 33,000,000 Top-up Placing Shares have been successfully placed to not less than six placees and the 33,000,000 Top-up Subscription Shares had been allotted and issued to Mr. Liu Dejian pursuant to the general mandate. The aggregate gross proceeds from the Top-up Placing and Subscription are approximately HKD782.10 million and the aggregate net proceeds from the Top-up Placing and Subscription are approximately HKD773.44 million after deducting the commission payable to the Placing Agent, professional fee and other related costs and expenses in relation to the Top-up Placing and Subscription. On such basis, the net price of each Top-up Subscription Share is approximately HKD23.46.

The total funds raised from the Top-up Placing and Subscription and details of the use of proceeds are as follows:

Net proceeds raised from the Top-up Placing and Subscription	Intended use of the proceeds	Utilised proceeds as of 30 June 2021	Unutilised proceeds as of 30 June 2021
HKD773.44 million	General corporate purpose and to fund the expansion of education business	HKD450.50 million	HKD322.94 million

Subject to development of the Covid-19 pandemic and the global economic conditions, the Group will gradually utilise the unutilised net proceeds depending on its business needs and is expected to utilise the residual amount of such net proceeds within several years.

OTHER INFORMATION

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2021.

INTERIM DIVIDEND

On 26 August 2021, the Board has resolved to declare an interim dividend of HKD0.40 per share for the six months ended 30 June 2021 (2020: HKD0.25 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 10 September 2021. It is expected that the interim dividend will be distributed on or before 18 October 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 10 September 2021 to Monday, 13 September 2021, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2021, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 9 September 2021.

DISCLOSURE OF CHANGE OF INFORMATION OF DIRECTOR UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of information of a Director of the Company is as follows:

Mr. Lee Kwan Hung, Eddie resigned as an independent non-executive director of China BlueChemical Ltd. on 27 May 2021.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this report.

OTHER INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the period under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems, which include financial, operational and compliance controls and risk management functions.

The Audit Committee reviews the interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continued connected transactions and connected transactions relating to structure contracts, other contracts and control documents of the Group.

Our Audit Committee comprises three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung, Eddie and Liu Sai Keung, Thomas. Chao Guowei, Charles is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2021 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2021, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

NetDragon Websoft Holdings Limited

Liu Dejian

Chairman

Hong Kong, 26 August 2021

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 37 to 92, which comprise the condensed consolidated statement of financial position as of 30 June 2021, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	NOTES	Six months ended 30 June	
		2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Revenue	4	3,356,174	2,822,858
Cost of revenue		(1,122,299)	(953,587)
Gross profit		2,233,875	1,869,271
Other income and gains	4	86,859	105,907
Impairment loss under expected credit loss model, net of reversal	6	(4,237)	(15,242)
Selling and marketing expenses		(437,997)	(427,022)
Administrative expenses		(485,206)	(441,632)
Development costs		(594,854)	(568,906)
Other expenses and losses		(94,341)	(84,054)
Share of losses of associates		(7,828)	(2,043)
Share of losses of joint ventures		(4,636)	(1,850)
Operating profit		691,635	434,429
Interest income on pledged bank deposits		819	1,595
Exchange gain (loss) on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments		7,522	(22,726)
Net gain on financial assets at fair value through profit or loss		12,052	14,930
Fair value (loss) gain on derivative financial instruments		(21,319)	6,971
Finance costs		(91,039)	(64,677)
Profit before taxation		599,670	370,522
Taxation	7	(216,042)	(92,728)
Profit for the period	8	383,628	277,794

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	NOTE		
Other comprehensive (expense) income for the period, net of income tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(3,403)	9,145
Item that will not be reclassified to profit or loss:			
Fair value (loss) gain on equity instruments at fair value through other comprehensive income		(2,504)	1,390
Other comprehensive (expense) income for the period		(5,907)	10,535
Total comprehensive income for the period		377,721	288,329
Profit (loss) for the period attributable to:			
– Owners of the Company		430,732	336,499
– Non-controlling interests		(47,104)	(58,705)
		383,628	277,794
Total comprehensive income (expense) attributable to:			
– Owners of the Company		425,338	346,368
– Non-controlling interests		(47,617)	(58,039)
		377,721	288,329
		RMB cents	RMB cents
Earnings per share			
	10		
– Basic		77.45	60.93
– Diluted		77.39	60.84

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	NOTES	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	11	1,943,925	1,992,708
Right-of-use assets	12	452,628	455,011
Investment properties	13	78,200	76,529
Intangible assets	14	747,956	625,771
Interests in associates	15	22,098	49,659
Interests in joint ventures	16	11,927	16,563
Equity instruments at fair value through other comprehensive income		8,437	10,808
Financial assets at fair value through profit or loss	23	281,670	281,194
Loan receivables		8,836	10,421
Other receivables, prepayments and deposits	20	77,892	62,841
Deposits made for acquisition of property, plant and equipment		864	3,630
Goodwill		239,125	241,332
Deferred tax assets		42,942	43,437
		3,916,500	3,869,904
Current assets			
Properties under development	17	296,808	263,915
Properties for sale		210,588	253,367
Inventories	18	396,251	316,909
Loan receivables		22,248	22,042
Trade receivables	19	611,384	525,353
Other receivables, prepayments and deposits	20	441,856	399,537
Contract assets	21	17,625	12,236
Amount due from a related company	22	47	47
Amounts due from joint ventures	22	992	974
Tax recoverable		11,976	14,035
Financial assets at fair value through profit or loss	23	2,920	5,781
Restricted bank balances	24	13,611	15,611
Pledged bank deposits	24	1,062	146,073
Bank deposits with original maturity over three months		762,862	33,021
Bank balances and cash		3,619,985	4,114,410
		6,410,215	6,123,311

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	NOTES	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Current liabilities			
Trade and other payables	25	1,089,092	1,091,369
Contract liabilities	21	379,690	405,483
Lease liabilities		64,263	56,224
Provisions		78,521	71,501
Derivative financial instruments	23	61,717	40,894
Amount due to an associate	26	757	3,484
Amount due to a joint venture	26	752	593
Convertible and exchangeable bonds	29	15,000	15,351
Bank borrowings	27	291,796	154,597
Dividend payables		115,870	99
Tax payable		148,975	121,083
		2,246,433	1,960,678
Net current assets			
		4,163,782	4,162,633
Total assets less current liabilities			
		8,080,282	8,032,537
Non-current liabilities			
Other payables	25	4,972	5,409
Convertible preferred shares	28	–	–
Convertible and exchangeable bonds	29	1,022,756	976,765
Bank borrowings	27	–	191,073
Lease liabilities		114,505	116,453
Deferred tax liabilities		85,409	90,907
		1,227,642	1,380,607
Net assets			
		6,852,640	6,651,930
Capital and reserves			
Share capital	30	40,622	40,951
Share premium and reserves		7,020,345	6,766,393
Equity attributable to owners of the Company		7,060,967	6,807,344
Non-controlling interests		(208,327)	(155,414)
		6,852,640	6,651,930

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

Attributable to owners of the Company

	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Property revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Equity instruments at fair value through other comprehensive income		Retained profits	Sub-total	Non-controlling interests	Total equity	
												Reserve	Reserve					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	38,822	1,565,863	6,652	20,498	10,035	452,203	118,824	22,449	(25,841)	29,033	(101,193)	(7,704)	3,466,680	5,596,321	(235,273)	5,361,048		
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	336,499	336,499	(58,705)	277,794		
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	8,899	970	-	9,869	666	10,535		
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	8,899	970	336,499	346,368	(58,039)	288,329		
Issue of new shares	2,318	694,309	-	-	-	-	-	-	-	-	-	-	-	696,627	-	696,627		
Shares issued upon exercise of share options	23	2,567	-	-	-	-	-	-	-	(640)	-	-	-	1,950	-	1,950		
Recognition of share awards granted by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	53	53		
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	18,417	-	-	-	-	18,417	18,417		
Awarded shares forfeited	-	-	-	-	-	-	-	-	-	(3,066)	-	-	-	(3,066)	-	(3,066)		
Awarded shares vested to employees	-	-	-	-	-	-	-	-	6,706	(7,580)	-	-	874	-	-	-		
Contribution from non-controlling interest of a subsidiary	-	-	-	(288)	-	-	-	-	-	-	-	-	-	(288)	2,288	2,000		
Acquisition of additional equity interests through conversion of convertible bonds of a subsidiary	-	-	-	(174,421)	-	-	-	-	-	-	-	-	-	(174,421)	174,421	-		
Acquisition of a subsidiary (Note 32)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,270	6,270		
Acquisition of assets through acquisition of a subsidiary (Note 33)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,506	6,506		
Final dividend for 2019 declared	-	-	-	-	-	-	(118,824)	-	-	-	-	-	(7,466)	(126,290)	-	(126,290)		
Interim dividend for 2020 proposed	-	-	-	-	-	-	128,780	-	-	-	-	-	(128,780)	-	-	-		
Transfer	-	-	-	-	(141)	-	-	-	-	-	-	-	141	-	-	-		
At 30 June 2020 (unaudited)	41,163	2,262,739	6,652	(154,211)	10,035	452,062	128,780	22,449	(19,135)	36,164	(92,294)	(6,734)	3,667,948	6,355,618	(103,774)	6,251,844		
At 1 January 2021	40,951	2,219,742	6,865	(145,030)	10,035	481,583	118,044	22,449	(19,135)	52,831	(114,782)	(3,381)	4,137,172	6,807,344	(155,414)	6,651,930		
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	430,732	430,732	(47,104)	383,628		
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	-	-	(3,658)	(1,736)	-	(5,394)	(513)	(5,907)		
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(3,658)	(1,736)	430,732	425,338	(47,617)	377,721		
Repurchase and cancellation of shares	(334)	(64,851)	334	-	-	-	-	-	-	-	-	-	(334)	(65,185)	-	(65,185)		
Shares issued upon exercise of share options	5	592	-	-	-	-	-	-	-	(166)	-	-	-	431	-	431		
Recognition of share awards granted by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28	28		
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	11,705	-	-	-	11,705	-	11,705		
Awarded shares and share options forfeited	-	-	-	-	-	-	-	-	-	(11,841)	-	-	6,781	(5,060)	-	(5,060)		
Awarded shares vested to employees	-	-	-	-	-	-	-	-	6,482	(7,001)	-	-	519	-	-	-		
Acquisition of additional equity interests of subsidiaries from non-controlling interests	-	-	-	3,494	-	-	-	-	-	-	-	-	-	3,494	(5,324)	(1,830)		
Final dividend for 2020 declared	-	-	-	-	-	-	(118,044)	-	-	-	-	-	944	(117,100)	-	(117,100)		
Interim dividend for 2021 proposed	-	-	-	-	-	-	185,232	-	-	-	-	-	(185,232)	-	-	-		
At 30 June 2021 (unaudited)	40,622	2,155,483	7,199	(141,536)	10,035	481,583	185,232	22,449	(12,653)	45,528	(118,440)	(5,117)	4,390,582	7,060,967	(208,327)	6,832,640		

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

Notes:

- a. The amount represented the nominal value of the shares repurchased by the Company.
- b. Other reserve represented the difference between the consideration and the carrying amount of net assets value resulting from disposal of equity interests in subsidiaries that do not result in loss of control, acquisition of additional equity interests in subsidiaries and contribution from non-controlling interests, which are accounted for as equity transactions.
- c. Capital reserve arose on combining the results and financial positions of the companies of 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) using the principles of merger accounting.
- d. As stipulated by the relevant laws and regulations for enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain statutory reserves. Appropriation to such reserve is made out of profit after taxation as reflected in the statutory financial statements of each of the PRC subsidiaries while the amounts and allocation basis are decided by its board of directors annually. The statutory reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.
- e. Treasury share reserve comprises the consideration paid for the treasury shares held for the share award scheme, including any attributable incremental costs for the purchase of shares under the share award scheme.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
OPERATING ACTIVITIES		
Profit for the period	383,628	277,794
Adjustments for:		
Taxation	216,042	92,728
Interest income on bank balances, pledged bank deposits, loan receivables and refundable rental deposits	(31,477)	(14,775)
Loss (gain) on fair value change of derivative financial instruments	21,319	(6,971)
Net gain on financial assets at fair value through profit or loss	(12,052)	(14,930)
(Gain) loss on fair value change of investment properties	(2,333)	15,016
Amortisation of intangible assets	59,876	52,227
Depreciation of property, plant and equipment	99,200	96,420
Depreciation of right-of-use assets	42,303	42,646
Impairment loss of interest in an associate	22,570	–
Impairment of intangible assets	–	28,165
Interest expense on bank borrowings (included in finance costs)	6,218	8,882
Interest expense on convertible and exchangeable bonds (included in finance costs)	79,839	50,630
Others	28,222	37,920
Operating cash flows before movements in working capital	913,355	665,752
(Increase) decrease in trade receivables	(90,384)	91,259
Increase in inventories	(79,342)	(239,838)
Increase in properties under development	(33,968)	(16,909)
Decrease in properties for sale	43,854	–
(Increase) decrease in other receivables, prepayments and deposits	(54,157)	20,750
Increase in trade and other payables	27,195	167,616
Decrease in contract liabilities	(25,793)	(14,328)
Increase (decrease) in provisions	6,984	(4,344)
Others	(7,957)	4,364
Cash generated from operations	699,787	674,322
Interest paid	(34,481)	(13,594)
Income tax paid	(190,395)	(132,280)
NET CASH FROM OPERATING ACTIVITIES	474,911	528,448

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Six months ended 30 June	
	NOTES	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(72,985)	(111,352)
Placement of bank deposits with original maturity over three months		(730,000)	(35,214)
Withdrawal of pledged bank deposits		145,000	–
Withdrawal of restricted bank deposit		2,000	–
Acquisition of a subsidiary	32	–	(5,137)
Acquisition of assets through acquisition of a subsidiary	33	–	(43,000)
Purchase of intangible assets	14	(189,061)	(28,421)
Deposits made for acquisition of property, plant and equipment		(1,592)	(2,426)
Investment in associates		(2,837)	(20,000)
Investment in a joint venture		–	(6,000)
Advance to a joint venture		(18)	(622)
Purchase of financial assets at fair value through profit or loss		(3,022,000)	(251,320)
Proceeds from disposal of financial assets at fair value through profit or loss		3,033,846	–
Repayment from associates		–	99
Repayment from a related company		–	194
Other investing activities		29,660	18,353
		(807,987)	(484,846)
NET CASH USED IN INVESTING ACTIVITIES			
FINANCING ACTIVITIES			
New bank borrowings raised		127,827	168,944
Proceeds from issue of ordinary shares		–	696,627
Proceeds from shares issued upon exercise of share options		431	1,950
Proceeds from issue of convertible and exchangeable bonds		–	982,944
Repayment of bank borrowings		(180,586)	(110,288)
Repayment of lease liabilities		(33,677)	(30,619)
Payment for repurchase and cancellation of shares		(65,185)	–
Acquisition of additional equity interests of subsidiaries from non-controlling interests		(1,830)	–
Contribution from non-controlling interest of a subsidiary		–	2,000
		(153,020)	1,711,558
NET CASH (USED IN) FROM FINANCING ACTIVITIES			
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD			
		4,114,410	2,125,637
EFFECT OF FOREIGN EXCHANGE RATE CHANGES			
		(8,329)	29,423
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH			
		3,619,985	3,910,220

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. GENERAL INFORMATION

NetDragon Websoft Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate and ultimate holding company is DJM Holding Ltd. (“DJM”) and its ultimate controlling shareholders are Messrs. Liu Dejian, Liu Luyuan and Zheng Hui (the “Ultimate Controlling Shareholders”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Units 2001-05 & 11, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are 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.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and application of certain accounting policy which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group's consolidated financial statements for the year ended 31 December 2020.

Intangible assets

Cryptocurrencies

Cryptocurrencies held by the Group are considered as intangible assets with indefinite useful lives as they lack physical form and there is no limit to their useful life.

Cryptocurrencies are measured at its cost less any accumulated impairment losses. The recoverable amounts of the cryptocurrencies are determined at the higher of their fair values less costs of disposal and value in use.

An impairment loss is recognised in profit or loss in the reporting period when the recoverable amount is assessed to be less than the carrying amount.

Cryptocurrencies are derecognised when the Group disposes of them or when the Group otherwise loses control and, therefore, access to the economic benefits associated with ownership of the cryptocurrencies cease.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group has early applied the Amendment to HKFRS 16 "*Covid-19-Related Rent Concessions beyond 30 June 2021*".

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of amendments to HKFRSs (Cont'd)

Except as described below, the application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts of early application of Amendment to HKFRS 16 "*Covid-19-Related Rent Concessions beyond 30 June 2021*"

The Group has early applied the amendment in the current interim period. The application of this amendment has had no material impact on the Group's financial positions and performance for the current and prior periods.

3.2 Impacts and accounting policies on application on Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "*Interest Rate Benchmark Reform – Phase 2*"

3.2.1 Accounting policies

Financial instruments

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both of these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

- 3.2 Impacts and accounting policies on application on Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2" (Cont'd)

3.2.2 Transition and summary of effects

Such transitions have had no material impact on the condensed consolidated financial statements. Further impacts on application of the amendments, if any, and additional disclosures, will be reflected in the Group's consolidated financial statements for the year ending 31 December 2021.

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Online and mobile games revenue	1,847,548	1,647,334
Education revenue (including sales of education equipment and related goods and educational services)	1,407,641	1,137,941
Mobile solution, products and marketing revenue	39,150	37,583
Property project revenue	61,835	–
	3,356,174	<u>2,822,858</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

Disaggregation of revenue from contracts with customers

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

Types of goods and services

	Six months ended 30 June 2021 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
Revenue from sales of pre-paid game cards for online and mobile games	1,847,548	-	-	-	1,847,548
Sales of education equipment and related goods	-	1,344,003	-	-	1,344,003
Revenue from provision of mobile solution, products and marketing services	-	-	39,150	-	39,150
Revenue from educational services	-	63,638	-	-	63,638
Revenue from property project	-	-	-	61,835	61,835
	<u>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>

	Six months ended 30 June 2020 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
Revenue from sales of pre-paid game cards for online and mobile games	1,647,334	-	-	-	1,647,334
Sales of education equipment and related goods	-	1,077,667	-	-	1,077,667
Revenue from provision of mobile solution, products and marketing services	-	-	37,583	-	37,583
Revenue from educational services	-	60,274	-	-	60,274
	<u>1,647,334</u>	<u>1,137,941</u>	<u>37,583</u>	<u>-</u>	<u>2,822,858</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

Disaggregation of revenue from contracts with customers (Cont'd)

Timing of revenue recognition

Six months ended 30 June 2021 (Unaudited)					
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
A point in time	1,847,548	1,344,003	–	61,835	3,253,386
Over time	–	63,638	39,150	–	102,788
	<u>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>

Six months ended 30 June 2020 (Unaudited)					
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
A point in time	1,647,334	1,077,667	–	–	2,725,001
Over time	–	60,274	37,583	–	97,857
	<u>1,647,334</u>	<u>1,137,941</u>	<u>37,583</u>	<u>–</u>	<u>2,822,858</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

Disaggregation of revenue from contracts with customers (Cont'd)

Geographical information

	Six months ended 30 June 2021 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
PRC	1,594,296	84,817	40	61,835	1,740,988
United States of America ("USA")	236,435	942,736	-	-	1,179,171
United Kingdom	-	72,483	-	-	72,483
Germany	-	132,558	-	-	132,558
Hong Kong	-	1,434	37,603	-	39,037
France	-	25,086	-	-	25,086
Italy	-	29,215	-	-	29,215
Ireland	-	18,198	-	-	18,198
Egypt	-	-	-	-	-
Australia	-	12,900	-	-	12,900
Spain	-	21,688	-	-	21,688
Netherlands	-	12,437	-	-	12,437
Russia	-	3,467	-	-	3,467
Others	16,817	50,622	1,507	-	68,946
	<u>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

Disaggregation of revenue from contracts with customers (Cont'd)

Geographical information (Cont'd)

	Six months ended 30 June 2020 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
PRC	1,451,215	66,074	15	–	1,517,304
USA	180,281	533,978	–	–	714,259
United Kingdom	–	87,317	–	–	87,317
Germany	–	53,150	–	–	53,150
Hong Kong	–	184	35,215	–	35,399
France	–	18,838	–	–	18,838
Italy	–	16,101	–	–	16,101
Ireland	–	9,409	–	–	9,409
Egypt	–	233,043	–	–	233,043
Australia	–	16,608	–	–	16,608
Spain	–	10,400	–	–	10,400
Netherlands	–	11,545	–	–	11,545
Russia	–	12,618	–	–	12,618
Others	15,838	68,676	2,353	–	86,867
	<u>1,647,334</u>	<u>1,137,941</u>	<u>37,583</u>	<u>–</u>	<u>2,822,858</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Other income and gains		
Government grants (Note)	34,811	48,527
Interest income on bank balances, loan receivables and refundable rental deposits	30,658	13,180
Value-added tax incentives	8,928	9,579
Net foreign exchange gain	–	29,756
Rental income arising from subleases	2,516	1,072
Gain on fair value change of investment properties	2,333	–
Net gain on disposal of property, plant and equipment	377	318
Compensation income	305	–
Covid-19-related rent concession (Note 12)	–	205
Game implementation income	–	199
Others	6,931	3,071
	86,859	105,907

Note: Government grants were received from the government of the PRC mainly for subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred, which amount of RMB28,571,000 (six months ended 30 June 2020: RMB45,120,000) is recognised in profit or loss during the six months ended 30 June 2021 and (ii) the purchase of property, plant and equipment, which was deferred and recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure with an amount of RMB6,240,000 (six months ended 30 June 2020: RMB3,153,000) is recognised in profit or loss during the six months ended 30 June 2021.

During the current interim period, the Group did not receive government grants in respect of Covid-19-related subsidies.

During the six months ended 30 June 2020, the Group received government grants of RMB725,000 in respect of Covid-19-related subsidies, of which RMB705,000 related to subsidy from the Employment Support Scheme provided by the Hong Kong government for the period from June to August 2020 and RMB20,000 related to employment subsidy provided by the PRC government. Included in the government grants received, the Group recognised RMB254,000 in profit or loss during the six months ended 30 June 2020 and RMB471,000 was deferred and recognised as deferred income in other payables which would be recognised in profit or loss when the conditions as set out by the government is fulfilled.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The following is an analysis of the Group's revenue and results by reportable segments:

Six months ended 30 June 2021

	Online and mobile games RMB'000	Education RMB'000	Mobile solution, products and marketing RMB'000	Property project RMB'000	Total RMB'000
Segment revenue	<u>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>
Segment profit (loss)	<u>1,115,550</u>	<u>(385,185)</u>	<u>210</u>	<u>19,894</u>	<u>750,469</u>
Unallocated other income and gains					36,335
Unallocated expenses and losses					<u>(187,134)</u>
Profit before taxation					<u>599,670</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

5. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2020

	Online and mobile games RMB'000	Education RMB'000	Mobile solution, products and marketing RMB'000	Property project RMB'000	Total RMB'000
Segment revenue	<u>1,647,334</u>	<u>1,137,941</u>	<u>37,583</u>	<u>–</u>	<u>2,822,858</u>
Segment profit (loss)	<u>1,069,370</u>	<u>(547,690)</u>	<u>(14,393)</u>	<u>(2,578)</u>	504,709
Unallocated other income and gains					45,324
Unallocated expenses and losses					<u>(179,511)</u>
Profit before taxation					<u>370,522</u>

The accounting policies of the operating segments are the same as the Group's accounting policies.

Segment profit (loss) represents the profit earned by or loss incurred from each segment without allocation of unallocated other income, gains, expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

All of the segment revenue reported above is from external customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

5. SEGMENT INFORMATION (Cont'd)

The following is an analysis of the Group's assets by reportable and operating segments:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Online and mobile games	5,235,436	4,769,546
Education	3,698,698	3,817,395
Mobile solution, products and marketing	77,560	84,801
Property project	597,526	619,567
Total segment assets	9,609,220	9,291,309
Unallocated	717,495	701,906
	10,326,715	9,993,215

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as certain investment properties, certain equity instruments at fair value through other comprehensive income ("FVTOCI"), certain financial assets at fair value through profit or loss ("FVTPL"), loan receivables, certain other receivables, prepayments and deposits and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

6. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Impairment loss recognised in respect of trade receivables	4,237	15,242

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2020.

During the current interim period, the Group provided an impairment allowance of RMB9,807,000 (six months ended 30 June 2020: RMB16,602,000). During the six months ended 30 June 2020, a specific loss allowance of RMB746,000 (six months ended 30 June 2021: Nil) has been made in respect of some individual debtors as there is evidence indicating the assets are credit-impaired and the recoverability of these balances is low.

During the current interim period, the Group reversed the impairment allowance of RMB5,570,000 (six months ended 30 June 2020: RMB1,360,000) which was made in respect of some individual debtors.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

7. TAXATION

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current period	29,974	22,287
– Over provision in prior years	(146)	–
	29,828	22,287
PRC Enterprise Income Tax		
– Current period	129,182	87,388
– Withholding tax	345	21
– Under provision in prior years	37,555	2,487
	167,082	89,896
Taxation in other jurisdictions		
– Current period	23,376	(6,305)
– Under provision in prior years	426	115
	23,802	(6,190)
Deferred tax		
– Current period	(4,670)	(13,265)
	216,042	92,728

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	14,110	17,904
Other staff costs:		
Salaries and other benefits	967,219	920,886
Contributions to retirement benefits schemes (Note a)	83,231	66,047
Share-based payments expense	(1,390)	2,989
Redundancy payments	13,503	6,972
	1,076,673	1,014,798
Amortisation of intangible assets	59,876	52,227
Depreciation of property, plant and equipment	99,200	96,420
Depreciation of right-of-use assets	42,303	42,646
Total depreciation and amortisation	201,379	191,293
Cost of education equipment sold recognised in cost of revenue	855,308	757,299
Advertising and promotion expenses	174,647	161,994
Impairment loss of interest in an associate	22,570	-
Impairment of intangible assets	-	28,165
Covid-19-related rent concessions (Note 12)	-	(205)
Net gain on disposal of property, plant and equipment	(377)	(318)
(Gain) loss on fair value change of investment properties	(2,333)	15,016
Write-down of inventories (Note b)	-	631
Net foreign exchange loss (gain) excluding exchange (gain) loss on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	20,838	(29,756)

Notes:

- During the six months ended 30 June 2020, the Group benefited from reduced rates of contribution to retirement benefits of PRC staff as introduced by the PRC government in order to help enterprises overcome the effects of the Covid-19 pandemic, which amounted to RMB14,356,000 (six months ended 30 June 2021: Nil).
- During the six months ended 30 June 2020, there was a decrease in the net realisable value of certain raw materials due to stock surplus. As a result, a recognition of write-down on obsolete inventories of RMB631,000 (six months ended 30 June 2021: Nil) due to the decrease of net realisable value has been recognised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

9. DIVIDENDS

During the current interim period, a dividend of Hong Kong dollar (“HKD”) 0.25 per share (2020: HKD0.25 per share in respect of the year ended 31 December 2019) was approved by the shareholders as the final dividend for the year ended 31 December 2020 amounted to RMB117,100,000 and was subsequently paid on 9 July 2021. The aggregate amount of the final dividend for the year ended 31 December 2019 paid in 2020 amounted to approximately RMB126,290,000.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.40 per share, amounting to HKD222,613,000 (equivalent to RMB185,232,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 18 October 2021.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings for the purpose of basic and diluted earnings per share:
– profit for the period attributable to owners of the Company

Six months ended 30 June

2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
430,732	336,499

Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)

Effect of dilutive potential shares from the Company’s share option scheme and unlisted warrants

Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)

Number of shares Six months ended 30 June

2021 (Unaudited) '000	2020 (Unaudited) '000
556,126	552,248
455	815
556,581	553,063

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB514,000 (six months ended 30 June 2020: RMB607,000) for cash proceeds of RMB891,000 (six months ended 30 June 2020: RMB925,000), resulting in a gain on disposal of RMB377,000 (six months ended 30 June 2020: RMB318,000).

During the current interim period, the deposits of approximately RMB4,358,000 (six months ended 30 June 2020: RMB8,236,000) were transferred to property, plant and equipment and the Group paid approximately RMB72,985,000 (six months ended 30 June 2020: RMB111,352,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB22,498,000 (six months ended 30 June 2020: RMB30,883,000) in plant and equipment and RMB20,420,000 (six months ended 30 June 2020: RMB53,291,000) in construction in progress.

During the six months ended 30 June 2020, the Group acquired equipment of RMB34,000 through acquisition of a subsidiary.

12. RIGHT-OF-USE ASSETS

During the current interim period, the Group entered into several new lease agreements ranging from 2 to 5 years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets of RMB41,855,000 (six months ended 30 June 2020: RMB42,774,000) and lease liabilities of RMB41,414,000 (six months ended 30 June 2020: RMB42,614,000).

In addition, the Group has several lease agreements modified which resulted in a decrease in right-of-use assets of RMB1,258,000 (six months ended 30 June 2020: Nil) during the six months ended 30 June 2021. Accordingly, the Group adjusted lease liabilities of RMB1,248,000 during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil). The Group recognised a gain of RMB58,000 (six months ended 30 June 2020: Nil) which is included in other income and gains.

During the six months ended 30 June 2020, lessors of the relevant offices provided rent concessions that occurred as a direct consequence of the Covid-19 pandemic to the Group through rent reductions from 50% to 100% over two to three months.

These rent concessions occurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the six months ended 30 June 2020, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of RMB205,000 were recognised as negative variable lease payments and were included in other income and gains.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13. INVESTMENT PROPERTIES

The Group's investment properties consist of two units of office premises in Hong Kong and several car parking spaces in the PRC as at 30 June 2021 and 31 December 2020.

(i) Office premises

The fair values of the office premises as at 30 June 2021 and 31 December 2020 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The fair values of the office premises are determined based on the market approach which uses the prices and other relevant information generated by market transactions involving comparable properties. One of the key inputs used in valuing the investment properties is the sales prices of properties nearby the Group's investment properties which ranged from HKD21,798 (equivalent to RMB18,138) per sq. ft to HKD33,044 (equivalent to RMB27,495) per sq. ft (31 December 2020: ranged from HKD21,798 (equivalent to RMB18,346) per sq. ft to HKD23,856 (equivalent to RMB20,078) per sq. ft), where sq. ft is a common unit of area used in Hong Kong. An increase in the sales prices would result in an increase in fair value measurement of the investment properties, and vice versa. There has been no change in the valuation technique used from the prior period.

(ii) Car parking spaces

The fair values of these car parking spaces have been arrived at on the basis of a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent qualified professional valuer not connected with the Group. The fair values of these car spaces are determined based on income approach by taking into account the net rental income of the properties in the existing market which have been capitalised to determine the market value. Out of the unobservable inputs used the key ones are the yield of 2.87% (31 December 2020: 2.87%) and average market rent of RMB300 (31 December 2020: RMB300) per month. An increase in the yield and average market rent used would result in an increase in fair value, and vice versa.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The investment properties were categorised into Level 3 of the fair value hierarchy as at 30 June 2021 and 31 December 2020. The resulting increase in fair value of investment properties of RMB2,333,000 (six months ended 30 June 2020: decrease in fair value of RMB15,016,000) has been recognised directly in profit or loss for the six months ended 30 June 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

14. INTANGIBLE ASSETS

During the current interim period, the Group paid approximately RMB189,061,000 (six months ended 30 June 2020: RMB28,421,000) for the acquisition of intangible assets to expand its operations. Included in the amount were the acquisition of cryptocurrencies of approximately United States dollar ("USD") 19,000,000 (equivalent to RMB122,821,000) and a sports lottery license of approximately RMB28,302,000. During the six months ended 30 June 2020, an amount of RMB83,154,000 of intangible asset was acquired upon the acquisition of a subsidiary and the acquisition of assets through acquisition of a subsidiary.

Impairment assessment

As a result of the changes in the current economic environment related to the Covid-19 pandemic, certain subsidiaries in education segment are experiencing negative conditions including decreased revenues in certain cash-generating units that indicate that the relevant intangible assets may be impaired. During the six months ended 30 June 2020, the Group performed impairment testing and recognised impairment loss of RMB28,165,000 (six months ended 30 June 2021: Nil) related to intangible assets.

15. INTERESTS IN ASSOCIATES

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Unlisted investments:		
Costs of investments	67,837	65,000
Share of post-acquisition losses	(23,169)	(15,341)
Impairment loss recognised	(22,570)	–
Group's share of net assets of associates	<u>22,098</u>	<u>49,659</u>

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2020.

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15. INTERESTS IN ASSOCIATES (Cont'd)

As at 30 June 2021 and 31 December 2020, the Group had interests in the following associates:

Name of entities	Proportion of ownership interest and voting rights held by the Group		Country of establishment/operation	Authorised/registered capital	Principal activities
	30 June 2021	31 December 2020			
Glory Team Limited ("Glory Team") (Note a)	30.0%	N/A	British Virgin Islands	USD50,000	Investment holding
Sammo Holdings Limited (森永道控股有限公司) ("Sammo Holdings") (Note a)	30.0%	N/A	Hong Kong	HKD7,520,000	Provision of online language teaching and training services
廣州市森永企業諮詢服務有限公司 ("廣州市森永企業") (Note a)	30.0%	N/A	PRC	RMB100,000	Provision of business management consulting services
安徽學雲教育科技有限公司 ("安徽學雲教育") (Note b)	20.93%	20.93%	PRC	RMB10,117,700	Provision of online education and related application business
長沙憶不容辭教育科技有限公司 ("長沙憶不容辭") (Note c)	20.0%	20.0%	PRC	RMB2,000,000	Provision of online education and related application business
雲啟智慧科技有限公司 ("雲啟智慧") (Note d)	40.0%	40.0%	PRC	RMB50,000,000	Provision of smart education

Notes:

- During the current interim period, the Group acquired 30% of the issued share capital of Glory Team, and its subsidiaries, Sammo Holdings and 廣州市森永企業 (collectively referred to as "Glory Team Group"), and has the power to appoint one director out of three directors in the board. Therefore, Glory Team Group are classified as associates of the Group as at 30 June 2021.
- The Group holds 20.93% of the registered capital of 安徽學雲教育, and has the power to appoint one director out of three directors in the board. Therefore, 安徽學雲教育 is classified as an associate of the Group as at 30 June 2021 and 31 December 2020.
- The Group holds 20% of the registered capital of 長沙憶不容辭, and has the power to appoint one director out of five directors in the board. Therefore, 長沙憶不容辭 is classified as an associate of the Group as at 30 June 2021 and 31 December 2020.
- The Group holds 40% of the registered capital of 雲啟智慧, and has the power to appoint two directors out of five directors in the board. Therefore, 雲啟智慧 is classified as an associate of the Group as at 30 June 2021 and 31 December 2020.

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16. INTERESTS IN JOINT VENTURES

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Unlisted investments:		
Costs of investments	24,000	24,000
Share of post-acquisition losses	(12,073)	(7,437)
Group's share of net assets of joint ventures	11,927	16,563

Name of entities	Proportion of ownership interest and voting rights held by the Group		Country of establishment/ operation	Registered capital	Principal activities
	30 June 2021	31 December 2020			
福建省國騰信息科技有限公司 ("國騰") (Note a)	60.0%	60.0%	PRC	RMB1,000,000,000	Application of information technologies, virtual reality and augmented reality technology
昆明網龍華漁科技發展有限公司 ("昆明網龍華漁") (Note b)	60.0%	60.0%	PRC	RMB50,000,000	Provision of training and software-as-a-service

Notes:

- a. 國騰 is a joint venture company of the Group although the Group has 60% ownership interest and voting rights in 國騰. The directors of the Company assessed whether or not the Group has joint control over 國騰 based on whether decisions about the relevant activities of the arrangement can be made without the consent of the Group. Pursuant to an agreement signed between the three joint venturers, the other two joint venturers act in concert and own 40% of shareholdings in 國騰 in aggregate, and that at least two-thirds of the voting rights are required to make decisions about the relevant activities of the arrangement. After assessment, the directors of the Company concluded that decisions about the relevant activities of the arrangement cannot be made without the consent of the Group and therefore the Group has joint control over 國騰.
- b. 昆明網龍華漁 is a joint venture company of the Group although the Group has 60% ownership interest and voting rights in 昆明網龍華漁. The directors of the Company assessed whether or not the Group has joint control over 昆明網龍華漁 based on whether decisions about the relevant activities of the arrangement can be made without the consent of the Group. Pursuant to an agreement signed between the two joint venturers, and at least two-thirds of the voting rights are required to make decisions about the relevant activities of the arrangement. After assessment, the directors of the Company concluded that decisions about the relevant activities of the arrangement cannot be made without the consent of the Group and therefore the Group has joint control over 昆明網龍華漁.

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FOR THE SIX MONTHS ENDED 30 JUNE 2021

17. PROPERTIES UNDER DEVELOPMENT

The Group's properties under development are situated in the PRC. All of the properties under development are stated at the lower of cost and net realisable value.

18. INVENTORIES

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Raw materials	5,703	5,671
Finished goods	390,548	311,238
	396,251	316,909

19. TRADE RECEIVABLES

The Group generally allows a credit period ranging from 30 days to 90 days to its distribution and payment channels/trade customers.

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the date of delivery of goods/date of rendering of services which approximated the respective revenue recognition dates:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Trade debtors		
0 – 30 days	363,811	253,872
31 – 60 days	112,246	115,077
61 – 90 days	36,360	35,820
Over 90 days	98,967	113,985
Receivables aged over 90 days with extended credit terms		
Due within one year	–	6,599
	611,384	525,353

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FOR THE SIX MONTHS ENDED 30 JUNE 2021

20. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Prepayments to suppliers	122,211	90,870
Prepayments for rented premises, utilities and server	67,334	58,751
Refundable rental and guarantee deposits (Note a)	73,816	77,035
Other receivables from agent for repurchasing the shares of the Company	–	65,645
Prepayment for convertible and exchangeable bonds interest	48,451	48,937
Prepayment for promotion expenses	43,500	20,088
Prepayment for sports lottery license fee (Note b)	40,000	–
Interest receivables	8,234	4,722
Other tax recoverable	61,896	60,675
Others	54,306	35,655
	<u>519,748</u>	<u>462,378</u>
Analysed for financial reporting purpose:		
Non-current	77,892	62,841
Current	441,856	399,537
	<u>519,748</u>	<u>462,378</u>

Notes:

- (a) Included in refundable rental and guarantee deposits, there are balances of:
- (i) RMB31,505,000 which represents deposit for potential lease contracts paid to a related company 福州楊振華851生物工程技術研究開發有限公司 (Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.) ("Fuzhou 851") as at 30 June 2021 (31 December 2020: RMB31,468,000).
 - (ii) RMB25,000,000 which represents deposit for technical support service paid to 福州天亮網絡技術有限公司 (Fuzhou Tianliang Network Technology Co., Limited) as at 30 June 2021 (31 December 2020: RMB25,000,000).
- (b) RMB40,000,000 which represents prepayment of fee for acquisition of a sport lottery license in the PRC (31 December 2020: Nil).

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FOR THE SIX MONTHS ENDED 30 JUNE 2021

21. CONTRACT ASSETS/LIABILITIES

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Contract assets		
Mobile solution, products and marketing services	15,467	10,619
Education equipment and related goods	2,158	1,617
	<u>17,625</u>	<u>12,236</u>
Contract liabilities		
Online and mobile games	59,816	53,326
Education equipment and related goods	258,504	214,547
Mobile solution, products and marketing services	2,762	2,228
Educational services	19,382	37,629
Property project	39,226	97,753
	<u>379,690</u>	<u>405,483</u>

The contract assets primarily relate to retention receivables on education equipment and related goods, and the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on the provision of mobile solution, products and marketing services. The contract assets are transferred to trade receivables when the rights become unconditional.

The contract liabilities include unutilised game points on online and mobile games, advance payments from customers for contracted education equipment and related goods, advance payments from customers for mobile solution, products and marketing services and advance payments from customers for educational services. The contract liabilities are transferred to revenue when customers control and receive the goods, services and benefits.

The amount received from customers for prepaid game points is deferred and recorded as contract liabilities and would be recognised as revenue at a point in time (i.e. online or mobile game revenue) after the actual usage of the game points for purchasing virtual products or premium features.

Property project represents the pre-sale deposits and advance payment received from customers for property project prior to the respective properties having been completed and delivered to the customers which is a point in time when customers have the ability to direct the use of the properties and obtain substantially all the remaining benefits of the properties. The Group receives a fixed amount of RMB50,000 as deposits from customers when they sign the sale and purchase agreement. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the customer obtains control of the completed property.

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22. AMOUNT(S) DUE FROM A RELATED COMPANY/JOINT VENTURES

As at 30 June 2021 and 31 December 2020, the amount due from a related company and amounts due from joint ventures are not trade in nature, unsecured, non-interest bearing and repayable on demand.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Financial assets designated at FVTPL		
– Equity-linked warrants	2,920	3,723
– Unlisted funds (Note i)	281,670	281,194
– Others	–	2,058
	<u>284,590</u>	<u>286,975</u>
Analysed for financial reporting purpose:		
Current	2,920	5,781
Non-current	281,670	281,194
	<u>284,590</u>	<u>286,975</u>
Derivative financial instruments		
– Convertible and exchangeable option (Note 29)	–	–
– Unlisted warrants (Note ii)	61,717	40,894
	<u>61,717</u>	<u>40,894</u>

Notes:

- (i) The unlisted funds represent a portfolio of investments managed by fund managers, most of the portfolio assets are invested in the listed securities in Hong Kong and the PRC. These investments are not held for trading, instead, they are held for long-term purposes. The Group is not expected to realise the funds within twelve months from the end of the reporting period, therefore the unlisted funds are classified as non-current assets.
- (ii) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 29.

24. RESTRICTED BANK BALANCES/PLEDGED BANK DEPOSITS

As at 30 June 2021, restricted bank balances represent bank balances for guarantee completion of constructions and pledged bank deposits represent bank deposits to obtain credit card facility.

As at 31 December 2020, restricted bank balances represent bank balances for guarantee completion of constructions and purchase of financial assets at FVTPL and pledged bank deposits represent bank deposits to secure a bank borrowing granted to the Group and to obtain credit card facility.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. TRADE AND OTHER PAYABLES

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Trade payables	445,266	361,934
Accrued staff costs	206,521	286,563
Government grants (Note a)	34,188	66,915
Receipt in advance	142	169
Other tax payables	20,640	25,713
Advertising payables	18,025	11,973
Payables for purchase of property, plant and equipment	88,927	115,222
Consultancy fee payables	7,540	15,137
Consideration payables (Note b)	8,800	28,641
Payables for purchase of intangible assets	6,138	10,230
Accrued expenses (Note c)	195,454	106,327
Payable for share repurchase	–	12,780
Others (Note d)	62,423	55,174
	<u>1,094,064</u>	<u>1,096,778</u>
Analysed for financial reporting purpose:		
Current	1,089,092	1,091,369
Non-current	4,972	5,409
	<u>1,094,064</u>	<u>1,096,778</u>

Notes:

- (a) The amount represents government grants which are (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred and (ii) the costs incurred by the Group for purchasing property, plant and equipment, which will be recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure.
- (b) The amount represents the remaining consideration payable for acquisition of several subsidiaries.
- (c) Accrued expenses mainly represent accrued duty and freight fee, legal and professional fees and other miscellaneous items for operating activities.
- (d) Others mainly represent office and server service expenses payables and other miscellaneous items for operating activities.

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25. TRADE AND OTHER PAYABLES (Cont'd)

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
0 – 90 days	352,799	307,331
91 – 180 days	12,088	7,707
181 – 365 days	60,159	23,131
Over 365 days	20,220	23,765
	445,266	361,934

26. AMOUNT DUE TO AN ASSOCIATE/A JOINT VENTURE

The amounts are trade in nature, aged within 90 days, unsecured, non-interest bearing and repayable on demand.

27. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB127,827,000 (six months ended 30 June 2020: RMB168,944,000). The bank borrowings as at 30 June 2021 carry interest at (i) one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.20% or 2.35% per annum, (ii) benchmark interest rate of three-year borrowings of the People's Bank of China (the "PBC") plus 0.15% to 0.35% per annum, (iii) benchmark interest rate of five-year borrowings of the PBC plus 0.10% per annum or (iv) interest rate of 1.00% or 3.85% per annum, and are repayable from 2021 to 2022. The borrowings were secured by a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

The bank borrowings as at 31 December 2020 carried interest at (i) one-month HIBOR plus 2.20% to 2.35% per annum, (ii) higher of twelve-month London Interbank Offered Rate plus 0.50% or 3.40% per annum, (iii) benchmark interest rate of three-year borrowings of the PBC plus 0.10% to 0.35% per annum, (iv) benchmark interest rate of five-year borrowings of the PBC plus 0.10% per annum or (v) interest rate of 1.00% or 3.85% per annum, and are repayable from 2021 to 2034. The borrowings were secured by a pledged bank deposit as mentioned in Note 24, a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

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28. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, Best Assistant Education Online Limited ("Best Assistant"), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 9.82% of the issued share capital of the Company, "IDG Investors"), Vertex Legacy Continuation Fund Pte Ltd. (formerly held by Vertex Asia Fund Pte. Ltd.) ("Vertex Legacy"), Hong Kong Alpha Group Limited (formerly known as Alpha Animation and Culture (Hong Kong) Company Limited) ("Hong Kong Alpha"), Catchy Holdings Limited, DJM (in which Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company together have 100% equity interest), Creative Sky International Limited and NetDragon Websoft Inc., a direct wholly owned subsidiary of the Company. The Series A convertible preferred shares are denominated in USD.

On 2 May 2018, Best Assistant issued 112,560,245 Series B convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD122,500,000 (equivalent to RMB780,713,000) to Fortis Advisors LLC as a consideration to acquire Edmodo, Inc.. The Series B convertible preferred shares are denominated in USD.

Conversion

The Series A and Series B convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to certain adjustments (such as proportional adjustment and anti-dilution adjustment).

The Series A and Series B convertible preferred shares shall be automatically converted into ordinary shares upon occurrence of an underwritten public offering of the ordinary shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD1,000,000,000 and net proceeds to the subsidiary of the Company are in excess of USD100,000,000.

Dividends

The holders of the outstanding Series A and Series B convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of the funds lawfully available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares or other equity securities. The right to receive dividends on the Series A and Series B convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

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28. CONVERTIBLE PREFERRED SHARES (Cont'd)

Liquidation

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of the subsidiary of the Company. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of the Series A convertible preferred shares, plus all declared but unpaid dividends (the "Series A" preference amount).

The holders of the Series B convertible preferred shares shall be entitled to receive for each of the outstanding Series B convertible preferred shares held, an amount equal to the Series B adjusted price, plus all declared but unpaid dividends (the "Series B" preference amount). The Series B adjusted price means, at any given time, the Series B issue price by a fraction, (i) the numerator of which is equal to the original Series B value minus the aggregate indemnification claim amount, and (ii) the denominator of which is the original Series B value; provided, that the Series B adjusted price will not be reduced below USD0.001 per share.

If the assets and funds thus distributed to the preferred shareholders shall be insufficient for the full payment of the Series A and Series B preference amount to all the preferred shareholders, then the entire assets and funds of Best Assistant legally available for distribution shall be distributed rateably among the preferred shareholders in proportion to the aggregate preference amount each such preferred shareholder is otherwise entitled to receive.

The Group has elected to designate the Series A and Series B convertible preferred shares with embedded derivatives as financial liabilities at FVTPL on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A and Series B convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

As at 30 June 2021 and 31 December 2020, the fair value of the convertible preferred shares is nil.

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29. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, Best Assistant issued convertible and exchangeable bonds with an aggregate principal amount of USD150,000,000 (equivalent to RMB1,038,900,000) to Nurture Education (Cayman) Limited (the "Investor"). Simultaneously, the Company issued unlisted warrants to the Investor in March 2020. The warrants shall entitle the Investor to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds bear interest accruing at a rate of 5% per annum on the aggregate principal amount of the convertible and exchangeable bonds and will be due on the fifth anniversary from the bond issue date ("Maturity Date"). The convertible and exchangeable bonds are denominated in USD.

Convertible and exchangeable option

The convertible and exchangeable bonds are exercisable at the option of bondholders, in whole or in part and can either be (i) convertible into ordinary shares of Best Assistant at an initial conversion price of USD0.5367 per conversion share at any time and from time to time during the period from the conversion period; or (ii) exchangeable for ordinary shares of Promethean World Limited ("Promethean"), a wholly owned subsidiary of Best Assistant and non-wholly owned subsidiary of the Company, at an initial exchange price of USD2.2146 per exchange share at any time and from time to time during the exchange period, in the event that Promethean pursues a qualified initial public offering which refers to a firmly underwritten initial public offering of ordinary shares of Promethean on an internationally recognised exchange with a minimum net proceeds and market capitalisation as set out in the terms and conditions of the convertible and exchangeable bonds. At initial recognition, the convertible and exchangeable option was classified as derivative financial instrument. The fair value of the convertible and exchangeable option was insignificant and the carrying amount is recognised as nil at initial recognition and at the end of the reporting period.

Warrants

Simultaneously with the issue of the convertible and exchangeable bonds, the Company issued to the Investor the warrants with a subscription price of HKD21.1998 per share. The warrants are allotted to subscribe at any time and from time to time during the issue date to Maturity Date for up to 11,502,220 shares. At initial recognition, the warrants were classified as derivative financial instrument at a fair value of approximately RMB86,795,000.

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29. CONVERTIBLE AND EXCHANGEABLE BONDS (Cont'd)

Redemption

Best Assistant shall redeem the convertible and exchangeable bonds, upon the request of the Investor at any time on or after the occurrence of an early redemption event, or if not early redeemed, converted, exchanged or purchased and cancelled, on the Maturity Date, at an amount that would provide the bondholders with an amount equal to the redemption amount (i.e. an amount that would provide the bondholders an internal rate of return on the principal amount of the convertible and exchangeable bonds of 15% per annum, inclusive of all interest received on the principal amount of the convertible and exchangeable bonds). The early redemption event is contingent upon the occurrence of any of (i) the third anniversary from the bond issue date; or (ii) change of control of Best Assistant or Promethean; or (iii) a liquidity event. The early redemption option is considered as closely related to the host debt and is therefore accounted for as part of the amortised cost accounting of the host debt contract.

The effective interest rate of the debt host component is 16.62%. The movement of the debt host component of the convertible and exchangeable bonds for the period/year is set out as below:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
At 1 January	992,116	–
Issue of convertible and exchangeable bonds, net of transaction costs	–	948,093
Interest accrued	79,839	129,865
Settlement of interest	(24,212)	(25,641)
Exchange adjustments	(9,987)	(60,201)
	1,037,756	992,116
Less: interest payable within one year (shown under current liabilities)	(15,000)	(15,351)
Amount shown under non-current liabilities	1,022,756	976,765

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30. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2020, 30 June 2020, 31 December 2020, and 30 June 2021	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2020	530,594,816	5,305,948	38,822
Issue of new shares (Note i)	33,000,000	330,000	2,318
Shares issued upon exercise of share options (Note i)	338,200	3,382	23
At 30 June 2020	563,933,016	5,639,330	41,163
Shares issued upon exercise of share options	7,500	75	1
Repurchase and cancellation of shares	(2,920,000)	(29,200)	(213)
At 31 December 2020	561,020,516	5,610,205	40,951
Shares issued upon exercise of share options (Note ii)	77,517	775	5
Repurchase and cancellation of shares (Note ii)	(4,564,500)	(45,645)	(334)
At 30 June 2021	556,533,533	5,565,335	40,622

Notes:

- (i) During the six months ended 30 June 2020, 338,200 share options were exercised and as a result of 338,200 ordinary shares were issued. Approximately RMB23,000 and RMB2,567,000 were recorded as share capital and share premium, respectively. 33,000,000 ordinary shares were issued to DJM which is wholly-owned by a controlling shareholder of the Company, Mr. Liu Dejian. Approximately RMB2,318,000 and RMB694,309,000 were recorded as share capital and share premium, respectively.
- (ii) During the six months ended 30 June 2021, 77,517 share options were exercised and as a result of 77,517 ordinary shares were issued. Approximately RMB5,000 and RMB592,000 were recorded as share capital and share premium, respectively. The Company repurchased 4,564,500 of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was RMB65,185,000.

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31. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Old Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The Old Scheme has expired on 12 June 2018 and a new share option scheme (the "New Scheme") was approved and adopted by the shareholders at the annual general meeting of the Company held on 24 May 2018. The purpose of the Old Scheme and New Scheme is to provide the eligible participant ("Eligible Participant") as defined in the Old Scheme and New Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Options were granted on 24 January 2020. Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Outstanding at 30 June 2021	Outstanding at 24 January 2020 and 30 June 2020
24 January 2020	24 January 2020 - 23 January 2021	24 January 2021 - 23 January 2030	1,349,000	1,599,000
24 January 2020	24 January 2020 - 23 January 2022	24 January 2022 - 23 January 2030	1,349,000	1,599,000
24 January 2020	24 January 2020 - 23 January 2023	24 January 2023 - 23 January 2030	1,352,000	1,602,000
24 January 2020	24 January 2020 - 23 January 2024	24 January 2024 - 23 January 2030	1,250,000	1,500,000
			5,300,000	6,300,000

The fair value of the options granted on that date was approximately RMB56,249,000. The fair value was calculated using the Binomial option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD20.20
Exercise price	HKD21.07
Risk-free interest rate	1.511%
Expected volatility	50.604%
Expected dividend yield	1.485%

Expected volatility was determined by reference to the annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

- (i) Equity-settled share option scheme (Cont'd)

The table below discloses movements of the Company's share options:

	Number of share options
Outstanding as at 1 January 2021	8,411,384
Exercised during the period	(77,517)
Lapsed during the period	<u>(1,295,675)</u>
Outstanding as at 30 June 2021	<u><u>7,038,192</u></u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD21.51. The Group recognised the total expenses of RMB4,995,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB12,948,000) in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme by the Company

The Company has a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The Group recognised the total expenses of RMB1,650,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB2,403,000) in relation to the Award.

Movements in the share awards granted during the six months ended 30 June 2021 and the year ended 31 December 2020 are as follows:

Six months ended 30 June 2021

Name of category of participant	Date of grant	Outstanding	Awards		Outstanding	
		at 1 January 2021	Granted during period	vested during period	Forfeited during period	at 30 June 2021
Other employees	19 April 2018	340,320	-	(112,790)	(79,450)	148,080
Director	19 April 2018	436,320	-	(190,890)	(27,270)	218,160
Director	26 March 2021	-	120,000	(120,000)	-	-
		<u>776,640</u>	<u>120,000</u>	<u>(423,680)</u>	<u>(106,720)</u>	<u>366,240</u>

Year ended 31 December 2020

Name of category of participant	Date of grant	Outstanding	Awards		Outstanding	
		at 1 January 2020	Granted during year	vested during year	Forfeited during year	at 31 December 2020
Other employees	19 April 2018	676,800	-	(127,430)	(209,050)	340,320
Director	19 April 2018	654,480	-	(190,890)	(27,270)	436,320
Director	13 January 2020	-	120,000	(120,000)	-	-
		<u>1,331,280</u>	<u>120,000</u>	<u>(438,320)</u>	<u>(236,320)</u>	<u>776,640</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme by the Company (Cont'd)

Among the Award granted on 19 April 2018, 303,680 share awards were vested during the six months ended 30 June 2021 (for the year ended 31 December 2020: 318,320 share awards). 366,240 share awards will be vested on 30 April 2022. 106,720 share awards were forfeited during the six months ended 30 June 2021 (six months ended 30 June 2020: 236,320 share awards).

Among the Award granted on 13 January 2020, 120,000 share awards were granted and vested during the six months ended 30 June 2020.

Among the Award granted on 26 March 2021, 120,000 share awards were granted and vested during the six months ended 30 June 2021.

(iii) Share awarded by a subsidiary of the Company

On 7 August 2012, Best Assistant adopted a share award scheme as amended on 13 February 2015 (the "Best Assistant Share Award Scheme") in which selected participants include senior management employees of Best Assistant and/or its subsidiaries ("Best Assistant Group"), consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries (excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex Legacy or Hong Kong Alpha.

Subject to early termination, the Best Assistant Share Award Scheme shall be valid and effective for a term of ten years commencing on 7 August 2012. Best Assistant may also transfer shares awarded under the Best Assistant Share Award Scheme whether vested or unvested to other trusts and if there is a change in control of Best Assistant, all awarded shares shall immediately be vested. The board of directors of Best Assistant may also waive any vesting conditions with the affirmative vote of one director appointed by IDG Investors, Vertex Legacy or Hong Kong Alpha. The maximum number of shares which may be granted to the participants under the Best Assistant Share Award Scheme shall not exceed ten percent (10%) of the total issued share capital of Best Assistant from time to time or such number of shares as determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex Legacy or Hong Kong Alpha.

Pursuant to the rules of the Best Assistant Share Award Scheme, Best Assistant has signed an agreement with a trustee, for the purpose of administering the Best Assistant Share Award Scheme and holding the awarded shares before they are vested.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(iii) Share awarded by a subsidiary of the Company (Cont'd)

Subject to, inter alia, the receipt by the trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) confirmation from Best Assistant that all vesting conditions having been fulfilled, the awarded shares will be transferred to the selected participants at nil consideration upon vesting.

Among the share awards granted by Best Assistant on 1 July 2018, 600,000 share awards were granted and 120,000, 120,000 and 120,000 share awards were vested on 1 July 2018, 1 July 2019 and 1 July 2020, respectively. 120,000 and 120,000 share awards will be vested on 1 July 2021 and 1 July 2022.

Among the share awards granted by Best Assistant on 1 July 2019, 400,000 share awards were granted and 80,000 and 80,000 share awards were vested on 1 July 2019 and 1 July 2020, respectively. 80,000, 80,000 and 80,000 share awards will be vested on 1 July 2021, 1 July 2022 and 1 July 2023.

The Group recognised the total expenses of approximately RMB28,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB53,000) in relation to the share awards.

32. ACQUISITION OF A SUBSIDIARY

Acquisition of 成都掌沃無限科技有限公司("成都掌沃")

On 31 December 2019, the Group entered into an agreement with independent third parties to acquire 52.65% equity interests of 成都掌沃 with consideration of RMB25,800,000. 成都掌沃 is engaged in development of online and mobile games in the PRC and was acquired with the objective of expanding the Group's business in the PRC. The transaction was completed on 8 May 2020. The acquisition had been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Consideration paid	11,531
Other payable	14,269
Total	<u>25,800</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

32. ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of 成都掌沃無限科技有限公司 (“成都掌沃”) (Cont'd)

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Non-current assets	
Equipment	34
Intangible assets	27,598
Current assets	
Trade receivables	670
Other receivable, prepayment and deposit	733
Bank balances	6,394
Current liabilities	
Other payables and accruals	(14,556)
Borrowing from a shareholder	(3,500)
Non-current liability	
Deferred tax liability	<u>(4,133)</u>
Net assets acquired	<u><u>13,240</u></u>

The fair values of the above identifiable assets and liabilities acquired were based on estimation used by the management of the Group with reference to valuation carried out by an independent professional valuer. Key assumptions and estimation used by the management included terminal value, discount rates and growth rates in the preparation of the discounted cash flows.

The fair values of trade receivables and other receivables were RMB670,000 and RMB733,000 respectively, which were also the gross contractual amounts of these receivables acquired. The best estimate at acquisition date of the contractual cash flows expected to be collected was the then entire outstanding amounts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

32. ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of 成都掌沃無限科技有限公司 (“成都掌沃”) (Cont'd)

Non-controlling interests

The non-controlling interest (47.35%) in 成都掌沃 recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of identifiable net assets of 成都掌沃 and amounted to RMB6,270,000.

Goodwill arising on acquisition of 成都掌沃

	RMB'000
Consideration transferred	25,800
Add: non-controlling interests	6,270
Less: fair value of identifiable net assets acquired	<u>(13,240)</u>
Goodwill arising on acquisition	<u><u>18,830</u></u>

Goodwill arose on the acquisition of 成都掌沃 because the acquisition included the assembled workforce of 成都掌沃. This benefit could not be separately recognised from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition was expected to be deductible for tax purpose.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

32. ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of 成都掌沃無限科技有限公司 (“成都掌沃”) (Cont'd)

Net cash outflow on acquisition of 成都掌沃

	RMB'000
Consideration paid in cash	11,531
Less: cash and cash equivalent balances acquired	<u>(6,394)</u>
	<u>5,137</u>

Impact of acquisition on the results of the Group

Included in the profit for the six months ended 30 June 2020 was the loss of RMB1,700,000 attributable to the additional business generated by 成都掌沃. Revenue for the six months ended 30 June 2020 attributable to the additional business generated by 成都掌沃 approximated RMB138,000.

Had the acquisition been completed on 1 January 2020, revenue for the six months ended 30 June 2020 of the Group would have been RMB2,823,332,000, and the profit for the six months ended 30 June 2020 would have been RMB273,623,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had 成都掌沃 been acquired at the beginning of the interim period, the directors of the Company calculated depreciation and amortisation of equipment based on the recognised amounts of equipment at the date of acquisition.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

33. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

Acquisition of assets through acquisition of 北京網中軟件科技有限公司 (“北京網中”)

During the six months ended 30 June 2020, the Group entered into an agreement with independent third parties to acquire 90% equity interests of 北京網中 with cash consideration of RMB50,000,000. The transaction was completed on 8 January 2020.

The transaction was accounted for as acquisition of assets by the Group as it did not constitute an acquisition of business for which there was no significant process acquired by the Group.

Consideration transferred

	RMB'000
Consideration paid	43,000
Other payable	<u>7,000</u>
Total	<u><u>50,000</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

33. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of assets through acquisition of 北京網中軟件科技有限公司 (“北京網中”) (Cont'd)

Asset and non-controlling interest recognised at the date of acquisition were as follows:

	RMB'000
Non-current asset	
Intangible assets	55,556
Current asset	
Other receivable, prepayment and deposit	950
Non-controlling interests	<u>(6,506)</u>
	<u>50,000</u>

Intangible assets represent the acquired software copyright for producing office software from the acquisition of 北京網中.

Cash outflow arising in the acquisition of 北京網中

	RMB'000
Consideration paid in cash	<u>43,000</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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34. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the Ultimate Controlling Shareholders, who have entered into an agreement to collectively govern the financial and operating policies of the Company and various subsidiaries.

The Group had the following significant related party transactions and balances during the period:

Name of related parties	Relationship
Fuzhou 851	DJM, the immediate holding company of the Company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, has 100% equity interest in this entity.
福建創思教育科技有限公司 ("福建創思教育")	福建創思教育 was an associate of the Group which the Group held 49% of the issued share capital in this entity until 2 November 2020.
雲啟智慧	雲啟智慧 is an associate of the Group which the Group holds 40% of the issued share capital in this entity.
國騰	國騰 is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.
昆明網龍華漁	昆明網龍華漁 is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.
北京企航互動網絡科技有限公司 ("北京企航")	北京企航 is an entity wholly owned by Mr. Zheng Hui, the executive director of the Company.

Nature of transactions	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Goods sold to 國騰	(380)	(79)
Goods sold to 昆明網龍華漁	(1,033)	-
Goods sold to 雲啟智慧	(3,152)	-
Interest income on loan advanced to key management	(183)	(198)
Technical services fee paid to 北京企航	-	131
Goods purchased from 福建創思教育	-	21

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

34. RELATED PARTY TRANSACTIONS (Cont'd)

Included in loan receivables as at 30 June 2021 was loan advanced to key management of approximately RMB7,741,000 (31 December 2020: RMB7,629,000), and the amounts are unsecured, and repayable on monthly instalment, or repayable in whole on 14 January 2022, 30 April 2022 and 31 August 2022 (31 December 2020: repayable in whole on 14 January 2021, 30 April 2022 and 31 August 2022) and carry interest rate of 4.15% to 5.00% (31 December 2020: 4.15% to 5.00 %) per annum.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	37,153	22,392
Contribution to retirement benefits schemes	315	235
Share-based payments expense	8,927	14,067
	46,395	36,694

The remuneration of directors and other key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Cont'd)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Cont'd)

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000				
Equity instruments at FVTOCI	8,437	10,808	Level 1	Quoted bid prices in an active market.	N/A	N/A
Financial assets at FVTPL – Equity-linked warrants	2,920	3,723	Level 3	Valuation of financial assets at FVTPL: Binomial valuation model using key input: expected volatility.	Volatility 147.96% (31 December 2020: 160.71%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Financial assets at FVTPL – Unlisted funds	281,670	281,194	Level 2	Price provided by the financial institution with reference to underlying investment portfolios which have observable quoted price in active markets.	N/A	N/A
Financial assets at FVTPL – Others	-	2,058	Level 2	Price provided by the financial institution with reference to underlying investment portfolios which have observable quoted price in active markets.	N/A	N/A
Derivative financial instruments – Convertible and exchangeable option	-	-	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 56.96% (31 December 2020: 54.68%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Derivative financial instruments – Unlisted warrants	61,717	40,894	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 48.53% (31 December 2020: 45.13%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Convertible preferred shares	-	-	Level 3	Black-Scholes pricing model using key inputs: expected volatility.	Volatility 57.24% (31 December 2020: 54.18%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.

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35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Cont'd)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Cont'd)

There was no transfer between Level 1, Level 2 and Level 3 during both periods.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities at amortised cost recognised in the condensed consolidated financial statements approximate their fair values at the end of each reporting period.

Reconciliation of Level 3 fair value measurements

Reconciliation of Level 3 fair value measurements of financial asset

	Financial assets at FVTPL
	RMB'000
At 1 January 2020 (audited)	1,492
Fair value changes	147
Exchange adjustments	<u>(43)</u>
At 30 June 2020 (unaudited)	<u>1,596</u>
At 1 January 2021 (audited)	3,723
Fair value changes	(872)
Exchange adjustments	<u>69</u>
At 30 June 2021 (unaudited)	<u>2,920</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Cont'd)

Reconciliation of Level 3 fair value measurements (Cont'd)

Reconciliation of Level 3 fair value measurements of financial liability

	Derivative financial instruments
	RMB'000
At 1 January 2020 (audited)	–
Issue of unlisted warrants	86,795
Fair value changes	(6,971)
Exchange adjustments	<u>2,117</u>
At 30 June 2020 (unaudited)	<u>81,941</u>
At 1 January 2021 (audited)	40,894
Fair value changes	21,319
Exchange adjustments	<u>(496)</u>
At 30 June 2021 (unaudited)	<u>61,717</u>

Of the total gains or losses for the period included in profit or loss, RMB872,000 and RMB21,319,000 relates to unlisted financial assets at FVTPL held and derivative financial instruments issued at the end of the current reporting period respectively. Fair value loss on unlisted financial assets at FVTPL are included in 'net gain on financial assets at fair value through profit or loss'. Fair value loss on derivative financial instruments are included in 'fair value (loss) gain on derivative financial instruments'.

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35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Cont'd)

Fair value measurements and valuation process

The board of directors of the Group has named the finance department, which is headed up by the Chief Financial Officer of the Group, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the finance department's findings to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

36. CAPITAL COMMITMENTS

At the end of reporting period, the Group had the following capital commitments contracted for but not provided in the condensed consolidated financial statements:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Capital expenditure in respect of the capital injection in joint ventures	606,000	606,000
Capital expenditure in respect of the acquisition of property, plant and equipment	248,062	285,450
Capital expenditure in respect of properties under development	584,990	610,269
Capital expenditure in respect of sports lottery license	30,000	–
	<u>1,469,052</u>	<u>1,501,719</u>