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## **NetDragon Websoft Holdings Limited**

**網龍網絡控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019**

#### **BUSINESS REVIEW AND OUTLOOK**

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is excited that it delivered an excellent first half in 2019. Revenue reached another semi-annual record-high at RMB2,672.5 million with 8.2% year-over-year growth, while profit attributable to shareholders more than doubled to RMB421.0 million from RMB200.7 million in the same period of 2018.

Gaming business maintained its strong growth momentum with 51.6% year-over-year revenue growth in the first half of 2019. Mobile games revenue jumped by 76.2% year-over-year, while PC games maintained its remarkable growth with 47.5% year-over-year increase in revenue. The performance in the first half of 2019 was driven by across-the-board revenue growth coming from all of the major intellectual properties (“IP”) of the Group, including Eudemons Online (魔域), Heroes Evolved (英魂之刃) and Conquer Online (征服). The Group will continue to execute the growth strategy on the back of a strong pipeline and the approach to maximize IP values.

Education business also delivered solid performance as Promethean, the subsidiary of the Group, continued its global market leadership position in K-12 interactive classroom technologies with the largest market share in international markets. The core business continued to perform as the shipment volume of interactive flat panels in most of the core regions increased substantially in the first half of 2019 year-over-year. The large Moscow phase-two tender was a major revenue contributor in the second quarter of 2018, which led to a year-over-year drop in overall revenue for the education business in the first half of 2019. That being said, the Group is seeing strong traction with the tender business as it sees unprecedented volume of tender opportunities in the market, including those in Egypt, Russia and Turkey, and the ability to win these opportunities is stronger than ever. On the product side, the Group is excited by the commencement of the shipment of its new ActivPanel Elements Series in the second quarter of 2019. Customer feedback has been very positive and its premium model, namely ActivPanel Titanium, was a recent winner of the prestigious Red Dot Design Award. As such, the Group expects Promethean to see a very strong second half of 2019. Last but not least, the Group is under way to monetize its user base in the online community of Edmodo with a SaaS model as the Group is set to roll out its online tutoring services (AskMo) in the beginning of the upcoming school year in 2019.

In China, the Group is starting to execute the go-to-market strategy to start large-scale penetration of Promethean offerings with a recent major win in Fuzhou. The Group has also more than doubled the installed base of 101 Education PPT, the flagship platform, to 6.0 million as at 30 June 2019, and the active coverage with this platform has surpassed over 10 million students. In addition, the Group is on track to complete the development of the content distribution platform within 101 Education PPT in the second half of 2019, which will pave the way for the Group to start content monetization.

## **Gaming Business**

Gaming business revenue increased by 51.6% year-over-year to RMB1,575.8 million in the first half of 2019. Mobile games revenue soared by 76.2% year-over-year, while PC games revenue growth remained robust at 47.5% year-over-year. The Group also performed well in the overseas markets, with 52.1% increase in revenue year-over-year. As a result of strong top line growth and positive operating leverage, gaming business's core segmental profit surged by 85.4% year-over-year.

In particular, Eudemons Online (魔域), the flagship IP, recorded 56.5% year-over-year increase in revenue of its PC and mobile version combined. On the back of the marketing activities and new expansion packs, the Group managed to increase gamers' loyalty and usage activities, while at the same time optimizing spending. One of the major marketing initiatives it carried out during the period was cross-industry collaboration with renowned celebrities and brands to enhance the market influence of Eudemons Online (魔域) IP in the first half of 2019. Revenue growth of Eudemons Online (魔域) IP that goes along with substantial increase in number of the active players as well as paying accounts is resulted.

The Group's other two major IPs, namely Heroes Evolved (英魂之刃) and Conquer Online (征服), also recorded solid revenue growth of 27.0% and 43.0% year-over-year respectively during the first quarter of 2019. Such revenue growth was attributable to the effort in marketing and promotion that has started to pay off. IP crossover collaboration was also a major theme, including a partnership to integrate OVERLORD, a popular Japanese anime, with Heroes Evolved (英魂之刃) IP during the first quarter of 2019, which led to a significant increase in gross billings. The Group also significantly stepped up its effort in enhancing the contents and user experience for the players in Conquer Online (征服) as it launched a total of 4 expansion packs during the first half of 2019.

Looking forward, the Group will continue to drive revenue and profit growth by maximizing its IP values with new games and new game-play features, as well as expanding its IP portfolio. The Group has a robust pipeline with over 10 new games under development or in testing stage, including Eudemons II, Heroes Evolved "Thrones", Battle of Giants, Cyber Legends and Vow of Heroes. The Group is in a position to launch multiple new games with different genres in the second half of 2019, as it sees a gradual opening up of new game licensing approvals by regulatory authorities.

## Education Business

For the first half of 2019, revenue from the education business was RMB1,048.5 million, down 24.2% year-over-year. Excluding revenue from the large Moscow tender in the second quarter of 2018 (which the Group excludes for more comparable presentation as tender revenue tends to be irregular in timing), revenue from the education business represented a 4.7% increase year-over-year. Promethean continued to perform as shipment volume of the interactive flat panels increased by 28.9% in the first half of 2019 year-over-year, excluding the Moscow tender as noted above. The tender business is also seeing strong traction, as the global wave to digitize classrooms and leverage technologies to improve learning has resulted in an unprecedented volume of tender opportunities, especially in several emerging markets such as Egypt, Russia and Turkey. In January of 2019, the Group has signed a memorandum of understanding with The Ministry of Education of Egypt to design and deliver a total of 265,000 “Pop-up” classrooms with the education products of the Group including Promethean panels as well as the software platforms. Taking into account the momentum, the Group is seeing with both core business and tender opportunities, it expects Promethean to see a strong second half of 2019.

The Group has also made great progress in product innovation. During the first half of 2019, Promethean rolled out its next-generation interactive panel, the ActivPanel Elements Series, which is purpose-built to make teaching and learning more effective in a networked learning environment. Specifically, the Element Series will benefit teachers by enabling them to connect with students and use online content and applications to increase learning outcome while keeping students engaged. A platform which provides the foundation for future online monetization at the classroom level is resulted. This ground-breaking innovation has earned the Promethean ActivPanel Titanium model a recent winner of the prestigious Red Dot Design Award. The shipment of the AcitvPanel Elements Series commenced in the second quarter of 2019 and the Group is seeing great demand going into the second half of 2019.

The Group continues to execute its monetization strategy at the home level, as the Group is on track to launch its online homework help service within Edmodo in the beginning of the upcoming school year starting in September 2019. The Group also expects to broaden its tutoring service to online 1-to-1 and 1-to-many video tutoring by the end of 2019.

In China, the strategy focus is to both expand user coverage and work towards monetization via a SaaS model. The Group has started to execute the go-to-market strategy to start large-scale penetration of Promethean offerings and the Group is excited to announce the first major win recently in Fuzhou covering approximately one hundred classrooms. Furthermore, the Group is continuing to deepen the penetration of 101 Education PPT, the flagship software platform with 6.0 million installations as at 30 June 2019 achieving a coverage of over 10 million active students. It is also on track to complete the development of the content distribution platform within 101 Education PPT in the second half of 2019, which will pave the way for monetization by enabling consumption of paid value-added contents on the platform. Last but not least, the Group is seeing a number of school-level SaaS platform opportunities which it is in a strong position to capitalize on given the capability to provide a complete product offering with unparalleled technology and design.

Looking forward, the Group is optimistic about the outlook as a result of rising traction in tender business, new product shipment as well as online user monetization. It is believed that the product differentiation and leading technologies will enable the Group to be fulfil its mission to revolutionize education with advanced technologies.

## FINANCIAL HIGHLIGHTS AND REVIEW

### 2019 First Half Financial Highlights

- Revenue was RMB2,672.5 million, representing an 8.2% increase year-over-year.
- Revenue from the games business was RMB1,575.8 million, representing 59.0% of the Group's total revenue and registering a 51.6% increase year-over-year.
- Revenue from the education business was RMB1,048.5 million, representing 39.2% of the Group's total revenue and registering a 24.2% decrease year-over-year. Excluding phase-two of the Moscow order in the second quarter of 2018, revenue from the education business represented a 6.9% increase year-over-year.
- Gross profit was RMB1,865.0 million, representing a 33.0% increase year-over-year.
- Cash inflow from operating activities was RMB420.3 million, compared to cash outflow from operating activities of RMB156.7 million for the same period of last year.
- Core segmental profit<sup>1</sup> from the games business was RMB972.1 million, representing an 85.4% increase year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB308.9 million, representing a 94.7% increase year-over-year. The increase was due largely to consolidation of Edmodo for the full 6-month period and seasonality of the Moscow order as noted above.
- Non-GAAP operating profit<sup>2</sup> was RMB543.1 million, representing an 117.9% increase year-over-year.
- Profit attributable to owners of the Company was RMB421.0 million, representing an 109.7% increase year-over-year.

## Segmental Financial Highlights

(RMB' 000)	2019 First Half		2018 First Half	
	Gaming	Education	Gaming	Education
Revenue	<b>1,575,849</b>	<b>1,048,529</b>	1,039,346	1,384,074
Gross profit	<b>1,513,024</b>	<b>351,916</b>	978,499	421,499
Gross margin	<b>96.0%</b>	<b>33.6%</b>	94.1%	30.5%
Core segmental profit (loss) <sup>1</sup>	<b>972,053</b>	<b>(308,944)</b>	524,376	(158,650)
Segmental operating expenses <sup>3</sup>				
– Research and development	<b>(255,204)</b>	<b>(239,038)</b>	(222,443)	(214,525)
– Selling and marketing	<b>(163,847)</b>	<b>(251,962)</b>	(102,609)	(224,161)
– Administrative	<b>(147,426)</b>	<b>(128,330)</b>	(143,806)	(113,000)

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 8 ("HKFRS 8")), but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments and fair value change of convertible preferred shares.

Note 2: To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of non-GAAP operating profit measure is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP operating profit measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating profit of the Group excludes share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries and impairment of goodwill and intangible assets.

Note 3: Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortisation and exchange gain (loss) 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.

## RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2019 together with the comparative figures in 2018 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	NOTES	RMB'000	RMB'000
Revenue	4	2,672,547	2,469,941
Cost of revenue		<u>(807,554)</u>	<u>(1,067,810)</u>
Gross profit		1,864,993	1,402,131
Other income and gains	4	52,753	39,817
Impairment loss under expected credit loss model, net of reversal		(81)	(13)
Selling and marketing expenses		(421,809)	(332,584)
Administrative expenses		(431,654)	(409,546)
Development costs		(502,390)	(442,233)
Other expenses and losses		(79,080)	(45,430)
Share of losses of associates		(951)	(265)
Share of loss of a joint venture		<u>(1,418)</u>	<u>(198)</u>
Operating profit		480,363	211,679
Interest income on pledged bank deposits		1,513	1,755
Exchange gain (loss) on secured bank borrowings and convertible preferred shares		123	(4,172)
Net gain on convertible preferred shares		13,436	26,953
Net loss on disposal of property held for sale		—	(68)
Finance costs		<u>(11,374)</u>	<u>(5,358)</u>
Profit before taxation		484,061	230,789
Taxation	6	<u>(108,575)</u>	<u>(53,047)</u>
Profit for the period		<u>375,486</u>	<u>177,742</u>

		<b>Six months ended 30 June</b>	
		<b>2019</b>	2018
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>NOTE</i>	<b>RMB'000</b>	<b>RMB'000</b>
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		<b>(478)</b>	(3,109)
Item that will not be reclassified to profit or loss:			
Fair value gain (loss) on equity instruments at fair value through other comprehensive income		<b>63</b>	(232)
Other comprehensive expense for the period		<b>(415)</b>	(3,341)
Total comprehensive income for the period		<b>375,071</b>	174,401
Profit (loss) for the period attributable to:			
– Owners of the Company		<b>421,026</b>	200,740
– Non-controlling interests		<b>(45,540)</b>	(22,998)
		<b>375,486</b>	177,742
Total comprehensive income (expense) attributable to:			
– Owners of the Company		<b>420,844</b>	198,055
– Non-controlling interests		<b>(45,773)</b>	(23,654)
		<b>375,071</b>	174,401
		<b>RMB cents</b>	<b>RMB cents</b>
<b>Earnings per share</b>	8		
– Basic		<b>79.66</b>	37.63
– Diluted		<b>79.52</b>	37.55



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2019**

		<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
	<i>NOTES</i>		
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>1,839,615</b>	1,657,417
Right-of-use assets		<b>431,920</b>	—
Prepaid lease payments		—	293,228
Investment properties		<b>77,586</b>	77,281
Intangible assets		<b>792,729</b>	824,991
Interests in associates		<b>52,640</b>	23,591
Interest in a joint venture		<b>14,298</b>	15,716
Equity instruments at fair value through other comprehensive income		<b>1,556</b>	1,493
Loan receivables		<b>11,091</b>	12,850
Prepayments and deposits		<b>27,752</b>	45,564
Contract assets		—	2,389
Deposits made for acquisition of property, plant and equipment		<b>2,489</b>	7,698
Goodwill		<b>378,693</b>	390,640
Deferred tax assets		<b>38,218</b>	38,169
		<b>3,668,587</b>	3,391,027
<b>Current assets</b>			
Properties under development		<b>626,125</b>	536,848
Inventories		<b>311,221</b>	267,420
Prepaid lease payments		—	6,636
Loan receivables		<b>27,826</b>	16,078
Trade receivables	10	<b>721,005</b>	450,435
Other receivables, prepayments and deposits		<b>367,073</b>	320,360
Contract assets		<b>23,766</b>	29,775
Amounts due from related companies		<b>288</b>	140
Amounts due from associates		<b>2,132</b>	2,105
Amount due from a joint venture		<b>1,360</b>	751
Amount due from a director		<b>400</b>	—
Tax recoverable		<b>11,979</b>	1,126
Restricted bank balances		<b>15,089</b>	15,089
Pledged bank deposits		<b>156,359</b>	156,168
Bank deposit over three months		—	68,632
Bank balances and cash		<b>1,674,425</b>	1,483,352
		<b>3,939,048</b>	3,354,915



		<b>30 June 2019 (Unaudited) RMB' 000</b>	31 December 2018 (Audited) RMB' 000
	<i>NOTES</i>		
<b>Current liabilities</b>			
Trade and other payables	11	<b>885,357</b>	783,040
Contract liabilities		<b>610,951</b>	412,462
Lease liabilities		<b>56,047</b>	—
Provisions		<b>73,215</b>	59,936
Amounts due to related companies		<b>988</b>	982
Amounts due to associates		<b>135</b>	720
Secured bank borrowings	13	<b>58,633</b>	155,157
Dividend payable		<b>69,998</b>	—
Tax payable		<b>95,947</b>	70,095
		<u><b>1,851,271</b></u>	<u>1,482,392</u>
<b>Net current assets</b>		<u><b>2,087,777</b></u>	<u>1,872,523</u>
<b>Total assets less current liabilities</b>		<u><b>5,756,364</b></u>	<u>5,263,550</u>
<b>Non-current liabilities</b>			
Other payables		<b>18,679</b>	22,219
Convertible preferred shares	12	<b>95,651</b>	108,904
Secured bank borrowings	13	<b>325,389</b>	169,604
Lease liabilities		<b>68,015</b>	—
Deferred tax liabilities		<b>159,063</b>	163,843
		<u><b>666,797</b></u>	<u>464,570</u>
<b>Net assets</b>		<u><b>5,089,567</b></u>	<u>4,798,980</u>
<b>Capital and reserves</b>			
Share capital		<b>38,815</b>	38,863
Share premium and reserves		<b>5,229,735</b>	4,893,941
Equity attributable to owners of the Company		<b>5,268,550</b>	4,932,804
Non-controlling interests		<b>(178,983)</b>	(133,824)
		<u><b>5,089,567</b></u>	<u>4,798,980</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2019

Attributable to owners of the Company

	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Equity instruments at fair value through other comprehensive income reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	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 2018	39,094	1,615,452	6,356	26,391	10,035	336,406	44,661	22,449	(952)	16,634	(111,992)	-	2,544,633	4,549,167	(65,106)	4,484,061
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	200,740	200,740	(22,998)	177,742
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	-	-	(2,453)	(232)	-	(2,685)	(656)	(3,341)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(2,453)	(232)	200,740	198,055	(23,654)	174,401
Repurchase and cancellation of shares	(72)	(16,295)	72	-	-	-	-	-	-	-	-	-	(72)	(16,367)	-	(16,367)
Purchase of treasury shares	-	-	-	-	-	-	-	(39,324)	-	-	-	-	-	(39,324)	-	(39,324)
Shares issued upon exercise of share options	7	2,498	-	-	-	-	-	-	(831)	-	-	-	-	1,674	-	1,674
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	12,280	-	-	-	12,280	-	12,280
Awarded shares vested to employees	-	-	-	-	-	-	-	-	6,784	(7,994)	-	-	1,210	-	-	-
Acquisition of additional equity interests from a non-controlling interest	-	-	-	(2,386)	-	-	-	-	-	-	-	-	-	(2,386)	1,314	(1,072)
Final dividend for 2017 paid	-	-	-	-	-	-	(44,661)	-	-	-	-	-	72	(44,589)	-	(44,589)
Interim dividend for 2018 proposed	-	-	-	-	-	-	44,973	-	-	-	-	-	(44,973)	-	-	-
Transfers	-	-	-	-	-	67	-	-	-	-	-	-	(67)	-	-	-
At 30 June 2018 (unaudited)	39,029	1,601,655	6,428	24,005	10,035	336,473	44,973	22,449	(33,492)	20,089	(114,445)	(232)	2,701,543	4,638,510	(87,446)	4,571,064
At 31 December 2018 (audited)	38,863	1,568,632	6,595	23,673	10,035	405,787	69,809	22,449	(33,182)	28,291	(106,801)	(8,340)	2,906,993	4,932,804	(133,824)	4,798,980
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(13,685)	(13,685)	(1,002)	(14,687)
At 1 January 2019 (restated)	38,863	1,568,632	6,595	23,673	10,035	405,787	69,809	22,449	(33,182)	28,291	(106,801)	(8,340)	2,893,308	4,919,119	(134,826)	4,784,293
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	421,026	421,026	(45,540)	375,486
Other comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(245)	63	-	(182)	(233)	(415)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(245)	63	421,026	420,844	(45,773)	375,071
Repurchase and cancellation of shares	(57)	(8,745)	57	-	-	-	-	-	-	-	-	-	(57)	(8,802)	-	(8,802)
Shares issued upon exercise of share options	9	3,166	-	-	-	-	-	-	(1,000)	-	-	-	-	2,175	-	2,175
Recognition of share awards granted by a subsidiary not yet vested	-	-	-	-	-	-	-	-	-	-	-	-	-	-	61	61
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	6,960	-	-	-	6,960	-	6,960
Awarded shares vested to employees	-	-	-	-	-	-	-	-	7,341	(8,796)	-	-	1,455	-	-	-
Contribution from non-controlling interest of a subsidiary	-	-	-	(126)	-	-	-	-	-	-	-	-	-	(126)	1,106	980
Acquisition of additional equity interests from non-controlling interests	-	-	-	(1,811)	-	-	-	-	-	-	-	-	-	(1,811)	449	(1,362)
Disposal of a subsidiary	-	-	-	-	-	(38)	-	-	-	-	-	-	38	-	-	-
Final dividend for 2018 declared	-	-	-	-	-	-	(69,809)	-	-	-	-	-	-	(69,809)	-	(69,809)
Interim dividend for 2019 proposed	-	-	-	-	-	-	69,998	-	-	-	-	-	(69,998)	-	-	-
At 30 June 2019 (unaudited)	38,815	1,563,053	6,652	21,736	10,035	405,749	69,998	22,449	(25,841)	25,455	(107,046)	(8,277)	3,245,772	5,268,550	(178,983)	5,089,567

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>420,302</b>	<b>(156,721)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(258,692)	(250,104)
Purchase of intangible assets	(30,836)	(15,535)
Investment in an associate	(30,000)	—
Payment for deposits made for acquisition of property, plant and equipment	(1,269)	(6,603)
Net cash outflow on disposal of a subsidiary	(383)	—
Placement of pledged bank deposits	(168)	(160)
Withdrawal of bank deposit over three months	67,112	—
Acquisition of a subsidiary	—	(92,425)
Proceeds from disposal of property held for sale	—	8,857
Withdrawal of restricted bank balances	—	5,243
Withdrawal of restricted bank deposit	—	5,000
Advance to a joint venture	(609)	—
Advance to related companies	(155)	—
Other investing activities	(651)	3,807
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(255,651)</b>	<b>(341,920)</b>
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	77,063	153,993
Contribution from non-controlling interest of a subsidiary	980	—
Acquisition of additional equity interests from non-controlling interests	(1,362)	(1,072)
Proceeds from shares issued upon exercise of share options	2,175	1,674
Repayment of lease liabilities – principal	(27,948)	—
Repayment of bank borrowings	(16,976)	(16,445)
Payment for repurchase and cancellation of shares	(8,802)	(16,367)
Repayment of promissory note	—	(45,311)
Dividends paid	—	(44,589)
Payment for purchase of treasury shares	—	(39,324)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>25,130</b>	<b>(7,441)</b>

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>189,781</b>	<b>(506,082)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,483,352</b>	<b>1,578,477</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u><b>1,292</b></u>	<u><b>1,692</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<u><u><b>1,674,425</b></u></u>	<u><u><b>1,074,087</b></u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

### 1. GENERAL

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 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 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 and (iii) mobile solution, products and marketing 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.

### 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 new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2018.

#### Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle



## 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 2019

	<b>Online and mobile games (Unaudited) RMB’000</b>	<b>Education (Unaudited) RMB’000</b>	<b>Mobile solution, products and marketing (Unaudited) RMB’000</b>	<b>Total (Unaudited) RMB’000</b>
Segment revenue	<u>1,575,849</u>	<u>1,048,529</u>	<u>48,169</u>	<u>2,672,547</u>
Segment profit (loss)	<u>1,065,874</u>	<u>(385,703)</u>	<u>(10,483)</u>	<u>669,688</u>
Unallocated other income and gains				<u>8,466</u>
Unallocated expenses and losses				<u>(194,093)</u>
Profit before taxation				<u><u>484,061</u></u>

### Six months ended 30 June 2018

	<b>Online and mobile games (Unaudited) RMB’000</b>	<b>Education (Unaudited) RMB’000</b>	<b>Mobile solution, products and marketing (Unaudited) RMB’000</b>	<b>Total (Unaudited) RMB’000</b>
Segment revenue	<u>1,039,346</u>	<u>1,384,074</u>	<u>46,521</u>	<u>2,469,941</u>
Segment profit (loss)	<u>546,766</u>	<u>(149,664)</u>	<u>(7,544)</u>	<u>389,558</u>
Unallocated other income and gains				<u>25,168</u>
Unallocated expenses and losses				<u>(183,937)</u>
Profit before taxation				<u><u>230,789</u></u>

The accounting policies of the operating segments are the same as the Group’s accounting policies. Segment profit (loss) represents the profit earned or loss incurred from each segment without allocation of unallocated 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.



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

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Online and mobile games	<b>3,368,536</b>	2,988,020
Education	<b>3,307,874</b>	2,835,697
Mobile solution, products and marketing	<b>164,084</b>	179,559
	<hr/>	<hr/>
Total segment assets	<b>6,840,494</b>	6,003,276
Unallocated	<b>767,141</b>	742,666
	<hr/>	<hr/>
	<b>7,607,635</b>	6,745,942
	<hr/> <hr/>	<hr/> <hr/>

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 equity instruments at fair value through other comprehensive income, loan receivables, properties under development, certain right-of-use-assets/prepaid lease payments 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.

## 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2019 (Unaudited) RMB'000</b>	2018 (Unaudited) RMB'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current period	<b>6,436</b>	4,060
– Under provision in prior years	<b>138</b>	38
	<hr/>	<hr/>
	<b>6,574</b>	4,098
	<hr/>	<hr/>
PRC Enterprise Income Tax ("EIT")		
– Current period	<b>107,764</b>	53,115
– Withholding tax	<b>24</b>	52
– Over provision in prior years	<b>–</b>	(2,499)
	<hr/>	<hr/>
	<b>107,788</b>	50,668
	<hr/>	<hr/>
Taxation in other jurisdiction		
– Current period	<b>(611)</b>	2,240
– Over provision in prior years	<b>(191)</b>	(208)
	<hr/>	<hr/>
	<b>(802)</b>	2,032
	<hr/>	<hr/>
Deferred tax		
– Current period	<b>(4,985)</b>	(3,751)
	<hr/>	<hr/>
	<b>108,575</b>	53,047
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods.

PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

The USA income tax rates applicable to subsidiaries incorporated in the USA is 21% for federal tax and 8.84% for state income tax for both periods.

The United Kingdom Corporate Tax Rate applicable to subsidiaries is 19% for both periods.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdiction.

## 7. DIVIDENDS

During the current interim period, a dividend of Hong Kong dollar (“HKD”) 0.15 per share (2018: HKD0.10 per share) was approved by the shareholders as the final dividend for the year ended 31 December 2018 amounted to RMB69,809,000 and was subsequently paid in July 2019. The aggregate amount of the final dividend for the year ended 31 December 2017 paid in 2018 amounted to approximately RMB44,589,000.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.15 per share, amounting to HKD79,574,000 (equivalent to RMB69,998,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 12 September 2019.

## 8. 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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB’000</b>	<b>RMB’000</b>
Earnings for the purpose of basic and diluted earnings per share:		
– profit for the period attributable to owners of the Company	<b>421,026</b>	200,740
	<b>528,523</b>	533,482
	<b>953</b>	1,094
	<b>529,476</b>	534,576

## 9. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB2,090,000 (six months ended 30 June 2018: RMB492,000) for cash proceeds of RMB425,000 (six months ended 30 June 2018: RMB194,000), resulting in a loss on disposal of RMB1,665,000 (six months ended 30 June 2018: RMB298,000).

During the six months ended 30 June 2019, the deposits of approximately RMB6,478,000 (six months ended 30 June 2018: RMB3,498,000) were transferred to property, plant and equipment and the Group spent approximately RMB258,692,000 (six months ended 30 June 2018: RMB250,104,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB39,151,000 (six months ended 30 June 2018: RMB39,913,000) in plant and equipment and RMB211,985,000 (six months ended 30 June 2018: RMB207,617,000) in construction in progress.

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of RMB2,379,000 through acquisition of a subsidiary.

## 10. 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.

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Trade debtors		
0 - 30 days	<b>508,692</b>	233,932
31 - 60 days	<b>84,485</b>	107,939
61 - 90 days	<b>39,669</b>	45,849
Over 90 days	<b>79,709</b>	54,563
Receivables aged over 90 days with extended credit terms		
Due within one year	<b>8,450</b>	8,152
	<b>721,005</b>	450,435

## 11. TRADE AND OTHER PAYABLES

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Trade payables	451,344	281,236
Accrued staff costs	161,154	224,604
Government grants (Note a)	16,781	12,974
Receipt in advance	385	385
Other tax payables	32,310	38,633
Advertising payable	44,511	33,862
Payables for purchase of property, plant and equipment	10,967	13,120
Consultancy fee payable	17,178	25,000
Refundable rental deposits	2,957	2,952
Consideration payable (Note b)	8,800	8,800
Payables for purchase of intangible assets	6,631	6,631
Accrued expenses (Note c)	57,222	35,535
Others (Note d)	75,117	99,308
	<b>885,357</b>	<b>783,040</b>

### Notes:

- (a) The amount represents the current portion of government grants which are mainly assets related and amortised over the life of related assets or costs related and recognised as income when the relevant expenses are incurred for which the Group is entitled to be compensated.
- (b) The amount represents the remaining consideration payable for acquisition of several subsidiaries in prior years.
- (c) Accrued expenses mainly represent accrued duty and freight fee, legal and professional fee and other miscellaneous items for operating activities.
- (d) Others mainly represent construction payable for construction in progress and properties under development and other miscellaneous items for operating activities.

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

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
0 - 90 days	325,845	252,832
91 - 180 days	95,794	21,552
181 - 365 days	19,517	698
Over 365 days	10,188	6,154
	<b>451,344</b>	<b>281,236</b>

## 12. 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 United States dollar (“USD”) 0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately 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 12.7% of the issued share capital of the Company, “IDG Investors”), Vertex Asia Fund Pte. Ltd. (“Vertex”), Alpha Animation and Culture (Hong Kong) Company Limited (“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. (“Edmodo”). 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.

### **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 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 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 \$0.001 per share.

If the assets and funds thus distributed amount the preferred shareholders shall be insufficient for the full payment of the 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 fair value through profit or loss 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.

The movements of the convertible preferred shares for the period/year are set out as below:

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
At the beginning of the period/year	<b>108,904</b>	95,249
Issue of Series B convertible preferred shares	—	64,556
Fair value change	<b>(13,436)</b>	(60,659)
Exchange adjustments	<b>183</b>	9,758
	<hr/> <b>95,651</b> <hr/>	<hr/> 108,904 <hr/>
At the end of the period/year		

### 13. SECURED BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB77,063,000 (six months ended 30 June 2018: RMB153,993,000). The secured bank borrowings carry interest at (i) higher of twelve-month London Inter-Bank Offer Rate plus 0.50% and 3.40% per annum, (ii) one-month Hong Kong Inter-Bank Offer Rate plus 2.20% or 2.90% per annum, (iii) benchmark interest rate of three-year borrowings of the People's Bank of China plus 2.11% to 7.37% per annum, (iv) benchmark interest rate of five-year borrowings of the People's Bank of China plus 6.12% per annum and (v) interest rate of 4.94% or 6.00% per annum, and are repayable from 2019 to 2022. The borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, leasehold lands including in right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2019, the Group had pledged bank deposits, bank deposit over three months, restricted bank balances and bank balances and cash of approximately RMB1,845.9 million (31 December 2018: RMB1,723.2 million). The gearing ratio (consolidated secured bank borrowings/consolidated total equity) was 0.08 (31 December 2018: 0.07). As at 30 June 2019, total secured bank borrowings of the Group amounted to approximately RMB384.0 million (31 December 2018: RMB324.8 million) which were variable-rate loans. The bank borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, leasehold lands including in right-of-use assets and corporate guarantee provided by the Company and its subsidiaries.

As at 30 June 2019, the Group had net current assets of approximately RMB2,087.8 million as compared with approximately RMB1,872.5 million as at 31 December 2018.

## STAFF INFORMATION

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

	At <b>30 June</b> <b>2019</b>	At 31 December 2018	At 30 June 2018
Research and development	<b>3,479</b>	3,504	3,475
Selling and marketing	<b>1,310</b>	1,310	1,296
Accounting, finance and general administration	<b>1,004</b>	955	956
Production	<b>329</b>	331	311
Total	<b><u>6,122</u></b>	<b><u>6,100</u></b>	<b><u>6,038</u></b>



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

As at 30 June 2019, 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 (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	255,822,457 (L)	48.22%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	1,465,350 (L)	0.28%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	255,822,457 (L)	48.22%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	255,822,457 (L)	48.22%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Chen Hongzhan (Note 5)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.11%
Chao Guowei, Charles (Note 6)	The Company	Beneficial owner	338,500 (L)	0.06%
Lee Kwan Hung, Eddie (Note 7)	The Company	Beneficial owner	692,019 (L)	0.13%
Liu Sai Keung, Thomas (Note 8)	The Company	Beneficial owner	718,019 (L)	0.14%

*Notes:*

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 36.02% of the issued voting shares of the Company. Liu Dejian is also interested in 0.39% 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 5.32% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust of 26,541,819 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 3.59% of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.62% of the issued voting shares of the Company. Zheng Hui is also interested in 0.28% 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 48.22% 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.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 3.23%, 0.07% and 96.66%, respectively, 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)”), Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, 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 0.28% of the issued voting shares of the Company which is represented by beneficial interest of 1,465,350 Shares.
5. Chen Hongzhan is interested in 2.11% 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 0.06% of the issued voting shares of the Company which is being the underlying shares of interest of 338,500 shares options granted by the Company.
7. Lee Kwan Hung, Eddie is interested in 0.13% of the issued voting shares of the Company which is represented by personal interest of 274,019 shares and the rest being underlying shares of interest of 418,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.14% of the issued voting shares of the Company which is represented by personal interest of 19 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2019, 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.

## 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 2019, 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 ordinary shares and underlying held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	36.02%
IDG Group (Note 2)	The Company	Beneficial owner	78,333,320 (L)	14.77%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	78,333,320 (L)	14.77%
Zhou Quan (Note 2)	The Company	Through controlled corporations	73,490,095 (L)	13.85%
Jardine PTC Limited (Note 3)	The Company	Trustee	26,541,819 (L)	5.00%

### Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
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 2.05%, 9.81%, 2.00% and 0.91% 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 In-vestments, 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 Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

3. 26,541,819 shares directly held by Richmedia Holdings Limited, a company wholly-owned by Jardine PTC Limited, which held relevant interest in trust for Liu Luyuan.

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 nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 June 2019.

## 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 “New Share Option Scheme”) to replace the existing share option scheme which expired on 12 June 2018 (the “Existing Share Option Scheme”). As at the date of this report, no share options were granted and there were no outstanding share options under the New Share Option Scheme. Details of the share options outstanding and movement during the period ended 30 June 2019 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at 1	Number of share options			As at
			January 2019	Granted	Exercised	Lapsed	30 June 2019
<b>Independent non-executive Directors</b>							
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	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
	31.03.2017	23.65	100,000	—	—	—	100,000
<b>Others</b>							
Employees	28.04.2011	4.80	343,492	—	1,625	—	341,867
	22.07.2011	4.60	8,000	—	—	—	8,000
	23.04.2012	5.74	150,117	—	20,100	—	130,017
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	251,325	—	42,575	—	208,750
	25.04.2014	14.66	278,000	—	—	—	278,000
	11.05.2015	27.75	134,000	—	69,800	—	64,200
<b>Total</b>			<u>2,689,684</u>	<u>—</u>	<u>134,100</u>	<u>—</u>	<u>2,555,584</u>

## 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.

120,000 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 23 April 2019. 1,689,094 awarded shares granted to a number of selected participants were outstanding as at 30 June 2019. The awarded shares, which were purchased at a price of HKD18.96 per share by the Trustee, will be transferred to the selected 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.

Among the 508,240 vested awarded shares as at 30 June 2019, a total of 319,980 awarded shares were vested by the Directors.

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.

#### **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 Asia Fund Pte. Ltd. (“Vertex”), 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 87.56% to approximately 79.22%.

As at 30 June 2019, 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 will acquire 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 2019, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

## **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 2019.

## **INTERIM DIVIDEND**

On 28 August 2019, the Board has resolved to declare an interim dividend of HKD0.15 per share for the six months ended 30 June 2019 (2018: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 12 September 2019. It is expected that the interim dividend will be distributed on or before 18 October 2019.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 12 September 2019 to Friday, 13 September 2019, 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 2019, 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 Wednesday, 11 September 2019.

## **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 announcement.

## **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 2019 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 2019, 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, 28 August 2019

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