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NetDragon

NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

BUSINESS REVIEW AND OUTLOOK

2019 was a special year to NetDragon Websoft Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) as the Group achieved record high revenue and profit while celebrating its 20th anniversary. The Group recorded revenue of RMB5,793.1 million, up 15.0% year-over-year, and net profit attributable to shareholders of RMB807.2 million, up 48.0% year-over-year.

Gaming business maintained its strong growth momentum with 39.4% year-over-year revenue growth, as mobile games and PC games sustained remarkable growth with 46.8% and 38.3% increase in revenue year-over-year respectively. The business has proven to deliver consistent and sustainable growth, as our revenue has grown at a CAGR of 35.3% in the past five years, while segmental profits have increased more than sevenfold during the second half of 2019. Performance in 2019 was driven by across-the-board revenue growth coming from all of its major IPs, including Eudemons Online (魔域), Heroes Evolved (英魂之刃), and Conquer Online (征服). Over the past many years, the Group has built a unique set of technologies, knowhow and operational capabilities across multiple genres and markets, which will provide the foundation to drive the gaming business forward with sustainable growth.

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 Group had a strong second half of 2019 as the Company continued to see robust growth in its core regions, particularly in the US and European markets, as well as new markets including Egypt. On the product side, the Group is delighted that the Red Dot Design Award-winning ActivPanel Elements Series has been well received since its shipment commenced in the second quarter of 2019.

While Promethean offerings continue to enable the Group to expand its ecosystem within the classroom environment, the Company is making strong progress with the online learning community platform Edmodo, which has seen unprecedented increase in active users and new registered users since the outbreak of the coronavirus, as teachers and students around the world embrace Edmodo as an easy-to-use, effective and reputable platform that will ensure the continuity of learning in a fun and engaging manner. In particular, Edmodo has recently been chosen by the Ministry of Education in the Arab Republic of Egypt to be the designated online learning platform for the K12 education system in Egypt for immediate rollout to over 22 million students and over 1 million teachers in the country to provide distance learning support in the period of school suspension.

In China, the Group continued to deliver strong progress with its strategy to drive user adoption. The number of monthly actively installed base of the flagship platform 101 Education PPT has surpassed 1 million, representing a sizable user base of teachers to drive learning activities in the classroom environment. One-Stop Learning platform, which enables teachers and students to communicate, teach and learn after school, has seen MAU increase by more than 20 times in China since the coronavirus outbreak. With the fast-scaling coverage of active users in both classrooms and at home, the Group is well on track to build its ecosystem towards monetization.

Gaming Business

Gaming business revenue increased by 39.4% year-over-year to RMB3,299.6 million. Mobile games revenue surged by 46.8% year-over-year, while PC games revenue growth remained strong at 38.3% year-over-year. The Group also performed well in the overseas markets and recorded 66.4% increase in revenue year-over-year. As a result of strong top line growth and positive operating leverage, gaming business's core segmental profit jumped by 51.3% year-over-year.

In particular, the flagship IP, Eudemons Online (魔域) recorded 39.2% year-over-year increase in revenue of the PC and mobile versions combined. During the year of 2019, the Group successfully carried out a series of major marketing initiatives including cross-industry collaboration with Nezha IP and renowned celebrities to enhance the market influence of Eudemons Online (魔域). On the back of the marketing activities and new expansion packs, the Group managed to increase gamers' loyalty and activities, while at the same time optimizing spending, resulting in significant revenue growth as well as a 38.8% year-over-year increase in monthly active players.

The other two major IPs, namely Heroes Evolved (英魂之刃) and Conquer Online (征服), also recorded solid revenue growth of 32.5% and 66.3% year-over-year respectively. In particular, Conquer Online (征服) achieved record high revenue after its sixteenth year of history, as the Group stepped up its effort in enhancing the contents and user experience with multiple expansion packs launched during the year of 2019. Heroes Evolved (英魂之刃) also performed exceptionally well, with its growth attributable to a combination of introduction of new playing methods and effective marketing and promotion campaigns including IP crossovers with two popular anime, OVERLORD and Rakshasa Street, which led to a substantial increase in gross billings.

Looking forward, the Group is well-positioned to drive consistent, long-term revenue and profit growth for the gaming business by building on the success of the technology knowhow and the IP portfolio to launch new premier quality games of different genre, grow the user base and engagement of its existing games, launch new IP and seek to work with the partners on IP collaboration. Currently, the Group has a robust pipeline with games of different categories and genres under development or in testing stage, including Vow of Heroes, Eudemons II, Eudemons Legends, Heroes of Ages, Heroes Evolved Thrones and Battle of Giants.

Education Business

Revenue from the education business was RMB2,395.4 million, down 6.6% year-over-year. Excluding revenue from the large Moscow tender in 2018 (which exclude for more comparable presentation due to cyclical nature of the tender), revenue from the education business increased by 12.0% year-over-year. Promethean, the subsidiary of the Group continued its market leadership by maintaining its number 1 market share position in the key geographical regions including the US and a large number of European countries, resulting in strong growth momentum during the year of 2019, particularly in the second half of 2019 on the back of the new ActivPanel Elements Series product launch as shipment of this product started in the second quarter of 2019. ActivPanel Elements Series is Promethean's next-generation interactive panel, featuring unmatched ease-of-use, security and manageability. This ground-breaking innovation has earned the team a winner of the prestigious Red Dot Design Award during the year of 2019, as well as excellent feedback from customers. Overall, Promethean's unit volume of panel shipment increased by 11.1% year-over-year, while revenue increased 20.0% sequentially from first half to second half of 2019, as a result of the positive reception of the new product launch. The Group also see strong traction among emerging markets. In January 2019, the Company signed an MOU with The Ministry of Education of Egypt with the goal to deliver to Egypt a total of 265,000 sets of intelligent classrooms equipped with the education products including Promethean panels as well as software platforms. Building on the success in Egypt with a unique country coverage model, the Group is expanding the "country strategy" into other countries as the Group has initiated discussions on multiple country-level opportunities.

While Promethean expands he ecosystem within the classroom environment, the Group has made strong progress in extending the presence into the "home" with the online learning community platform Edmodo, which has seen unprecedented increase in active users and new registered users since the outbreak of the coronavirus. The remarkable increase in adoption, with DAU currently over 4 million, is due to Edmodo's clear differentiation with its freemium model, emphasis on sharing and community building, as well as its globally reputable brand as a reliable and secured platform for online and mobile learning. Recently, Edmodo was also selected as a UNESCO-recommended distance learning platform, due to its wide reach, strong user base and evidence of positive impact on learning. And in March 2020, Edmodo became Egypt's designated national K-12 online learning platform, as the Group work towards deployment of Edmodo across the whole of Egypt to create for a positive transformation of education at a country level. Meanwhile, the Group is also starting to lay the foundation to monetize the user base with a SaaS model as the Company soft launched AskMo, an online homework help service, in the fourth quarter 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 large-scale penetration of the Promethean offerings with multiple tender wins in Fuzhou during the year of 2019. The platform user adoption in the classroom environment has also continued to pick up traction, as the number of monthly active installed base of the flagship software platform 101 Education PPT has exceeded 1 million. Separately, the One-Stop Learning platform, which enables teachers and students to communicate, teach and learn after school, has seen MAU increase by more than 20 times in China since the coronavirus outbreak. With the fast-scaling coverage of active users in both classrooms and at home, the Group is well on track to build its ecosystem towards monetization. In December 2019, the Group signed a partnership agreement to partner with National Center for Educational Technology (NCET) to rollout the NCET VLAB Teaching Service System, a virtual laboratory platform, nationwide to high schools across China, which is expected to generate revenue based on a SaaS model at the school level.

Last but not least, as schools continue to shut down around the world due to the outspread of coronavirus, the Group is upholding its corporate social responsibility by offering online learning tools, resources and platforms to teachers, students and parents worldwide to support “continuous learning amid school suspension”. As noted above, the education platforms have seen significant surge in user traffic and activities, and the Group is committed to serving teachers, students and parents during this challenging period, and to enhance their teaching and learning experience not just during the outbreak, but also when school learning comes back to normal.

Looking forward, the Group is excited with the outlook of the education business in 2020, thanks to rising traction in tender business, surge in user traffic, as well as growing online monetization opportunities. The Company believe the unique differentiation of the ecosystem that we have built, as well as the technologies, will enable the Group to fulfil the mission to transform education at a global scale.

Fiscal Year 2019 Financial Highlights

- Revenue was RMB5,793.1 million, representing a 15.0% increase year-over-year.
- Revenue from the games business was RMB3,299.6 million, representing 57.0% of the Group's total revenue and registering a 39.4% increase year-over-year.
- Revenue from the education business was RMB2,395.4 million, representing 41.3% of the Group's total revenue and registering a 6.6% decrease year-over-year. Excluding phase-two of the Moscow tender win in 2018 (with phase 3 of such tender release planned 2020), revenue from the education business registered a 12.0% increase year-over-year. In the second half, revenue from education business increased by 28.5% half-over-half and 14.0% year-over-year respectively.
- Gross profit was RMB3,855.3 million, representing a 26.5% increase year-over-year.
- Cash inflow from operating activities was RMB1,175.8 million, representing a 69.4% increase year-over-year.
- Core segmental profit¹ from the games business was RMB1,923.3 million, representing a 51.3% increase year-over-year.
- Core segmental loss¹ from the education business was RMB524.5 million, representing a 36.2% increase year-over-year. The increase was due to a number of factors including consolidation of Edmodo for the full year period, US tariff on Promethean products, and cyclical nature of the Moscow tender as noted above.
- EBITDA was RMB1,245.2 million, representing a 49.6% increase year-over-year.
- Non-GAAP² operating profit was RMB1,060.7 million, representing a 62.7% increase year-over-year.
- Profit attributable to owners of the Company was RMB807.2 million, representing a 48.0% increase year-over-year.
- The Company declared a final dividend of HKD0.25 per share (2018: HKD0.15 per share), subject to approval at the coming Annual General Meeting.

Segmental Financial Highlights

(RMB' 000)	FY2019		FY2018		Variance	
	Gaming	Education	Gaming (Restated)	Education (Restated)	Gaming	Education
Revenue	3,299,626	2,395,398	2,367,405	2,565,556	39.4%	-6.6%
Gross profit	3,165,500	713,009	2,262,355	766,057	39.9%	-6.9%
Gross margin	95.9%	29.8%	95.6%	29.9%	0.3%	-0.1%
Core segmental profit (loss) ¹	1,923,262	(524,458)	1,271,564	(384,929)	51.3%	36.2%
Segmental operating expenses						
– Research and development	(557,561)	(491,261)	(458,932)	(449,332)	21.5%	9.3%
– Selling and marketing	(385,921)	(508,088)	(232,099)	(440,704)	66.3%	15.3%
– Administrative	(306,434)	(254,866)	(295,989)	(239,497)	3.5%	6.4%

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, fair value change and finance cost of financial instruments, intercompany finance cost, impairment loss (net of reversal), impairment of goodwill and intangible assets and fair value change of convertible preferred shares.

Note 2: To supplement the consolidated results of the Company prepared in accordance with HKFRSs, the use of non-GAAP operating profit measure is provided solely to enhance the overall understanding of the Company'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 Company excludes share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, impairment of intangible assets and impairment of goodwill.

RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the audited consolidated financial results of the Group for the year ended 31 December 2019 together with the comparative figures in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>NOTES</i>	2019 RMB'000	2018 <i>RMB'000</i>
Revenue	4	5,793,075	5,037,539
Cost of revenue		(1,937,823)	(1,990,298)
Gross profit		3,855,252	3,047,241
Other income and gains	4	137,323	118,189
Impairment loss under expected credit loss model, net of reversal		(26,491)	(11,717)
Selling and marketing expenses		(915,754)	(697,871)
Administrative expenses		(883,083)	(853,180)
Development costs		(1,075,400)	(922,867)
Other expenses and losses		(305,356)	(150,308)
Share of losses of associates		(4,936)	(1,370)
Share of loss of a joint venture		(3,370)	(1,717)
Operating profit		778,185	526,400
Interest income on pledged bank deposits		3,181	3,607
Exchange loss on secured bank borrowings and convertible preferred shares		(1,052)	(10,030)
Fair value change on convertible preferred shares		110,697	60,659
Net loss on disposal of property held for sale		–	(68)
Finance costs		(24,742)	(12,415)
Profit before taxation		866,269	568,153
Taxation	6	(163,214)	(91,349)
Profit for the year		703,055	476,804

	<i>NOTE</i>	2019 RMB'000	2018 <i>RMB'000</i>
Other comprehensive income (expense) for the year, net of income tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		5,517	4,332
Item that will not be reclassified to profit or loss:			
Fair value gain (loss) on equity instruments at fair value through other comprehensive income		878	(9,366)
Other comprehensive income (expense) for the year		6,395	(5,034)
Total comprehensive income for the year		709,450	471,770
Profit (loss) for the year attributable to:			
– Owners of the Company		807,212	545,573
– Non-controlling interests		(104,157)	(68,769)
		703,055	476,804
Total comprehensive income (expense) for the year attributable to:			
– Owners of the Company		813,456	541,430
– Non-controlling interests		(104,006)	(69,660)
		709,450	471,770
		RMB cents	<i>RMB cents</i>
Earnings per share	8		
– Basic		152.68	102.42
– Diluted		152.17	102.27

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019**

	<i>NOTE</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,918,697	1,657,417
Right-of-use assets		467,250	–
Prepaid lease payments		–	293,228
Investment properties		95,090	77,281
Intangible assets		675,737	824,991
Interests in associates		54,655	23,591
Interest in a joint venture		12,346	15,716
Equity instruments at fair value through other comprehensive income		4,514	1,493
Loan receivables		9,573	12,850
Prepayments and deposits		57,829	45,564
Contract assets		–	2,389
Deposits made for acquisition of property, plant and equipment		11,486	7,698
Goodwill		313,328	390,640
Deferred tax assets		47,317	38,169
		3,667,822	3,391,027
Current assets			
Properties under development		469,070	536,848
Properties for sale		20,640	–
Inventories		237,478	267,420
Prepaid lease payments		–	6,636
Loan receivables		27,354	16,078
Trade receivables	9	689,360	450,435
Other receivables, prepayments and deposits		328,369	320,360
Contract assets		18,333	29,775
Amount due from a related company		849	140
Amounts due from associates		2,262	2,105
Amount due from a joint venture		279	751
Amount due from a director		400	–
Tax recoverable		6,689	1,126
Financial assets at fair value through profit or loss		1,492	–
Restricted bank balances		15,089	15,089
Pledged bank deposits		145,787	156,168
Bank deposit over three months		–	68,632
Bank balances and cash		2,125,637	1,483,352
		4,089,088	3,354,915

	<i>NOTES</i>	2019 RMB'000	2018 <i>RMB'000</i>
Current liabilities			
Trade and other payables	10	980,522	783,040
Contract liabilities		529,497	412,462
Lease liabilities		54,603	–
Provisions		69,867	59,936
Amount due to a related company		105	982
Amounts due to associates		257	720
Secured bank borrowings	11	161,135	155,157
Tax payable		107,120	70,095
		1,903,106	1,482,392
Net current assets		2,185,982	1,872,523
Total assets less current liabilities		5,853,804	5,263,550
Non-current liabilities			
Other payables	10	16,275	22,219
Convertible preferred shares		–	108,904
Secured bank borrowings	11	246,068	169,604
Lease liabilities		108,803	–
Deferred tax liabilities		121,610	163,843
		492,756	464,570
Net assets		5,361,048	4,798,980
Capital and reserves			
Share capital		38,822	38,863
Share premium and reserves		5,557,499	4,893,941
Equity attributable to owners of the Company		5,596,321	4,932,804
Non-controlling interests		(235,273)	(133,824)
		5,361,048	4,798,980

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NET CASH FROM OPERATING ACTIVITIES	1,175,804	694,131
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(359,344)	(431,434)
Placement of bank deposits over three months	–	(266,960)
Acquisition of a subsidiary	–	(92,425)
Purchase of intangible assets	(77,167)	(71,518)
Advance of loan receivables	(12,000)	(12,015)
Deposits made for acquisition of property, plant and equipment	(10,927)	(10,128)
Investment in associates	(36,000)	(9,000)
Purchase of prepaid lease payments	–	(1,901)
Payment for rental deposits	(432)	–
Advance to associates	(157)	–
Repayment from (advance to) a joint venture	472	(592)
Advance to a related company	(716)	–
Placement of pledged bank deposits	(145,168)	(160)
Withdrawal of bank deposits over three months	67,112	206,053
Interest received	18,367	15,690
Proceeds from disposal of property held for sale	–	8,857
Repayment of loan receivables	4,253	6,719
Withdrawal of restricted bank balances	–	5,243
Withdrawal of restricted bank deposit	–	5,000
Repayment from a related company	–	1,564
Proceeds from disposal of property, plant and equipment	1,600	1,252
Withdrawal of pledged bank deposits	155,883	105
Cash outflow from disposal of subsidiaries	(2,431)	–
NET CASH USED IN INVESTING ACTIVITIES	(396,655)	(645,650)
FINANCING ACTIVITIES		
New secured bank borrowings raised	304,347	250,788
Proceeds from shares issued upon exercise of share options	4,121	1,761
Repayment of secured bank borrowings	(223,771)	(169,704)
Dividends paid	(139,807)	(89,369)
Repayment of lease liabilities	(67,157)	–
Payment for repurchase and cancellation of shares	(8,802)	(49,674)
Repayment of promissory note	–	(45,311)
Payment for purchase of treasury shares	–	(39,324)
Acquisitions of additional equity interests		
from non-controlling interests	(1,989)	(2,015)
Contribution from non-controlling interests of subsidiaries	2,980	–
NET CASH USED IN FINANCING ACTIVITIES	(130,078)	(142,848)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	649,071	(94,367)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,483,352	1,578,477
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(6,786)</u>	<u>(758)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	<u>2,125,637</u>	<u>1,483,352</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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. 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, 20/F, 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, (iii) mobile solution, products and marketing business and (iv) property project business.

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance (Cap 622 of the laws of Hong Kong).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

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

Except for HKFRS 16, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKAS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the Amendments to HKFRS 3, HKAS 1 and HKAS 8, *Conceptual Framework for Financial Reporting* and *the Amendments to Reference to the Conceptual Framework in HKFRS Standards*, the directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND OTHER INCOME AND GAINS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue		
Online and mobile games revenue	3,299,626	2,367,405
Education revenue (including sales of education equipment and related goods and educational services)	2,395,398	2,565,556
Mobile solution, products and marketing revenue	98,051	104,578
	<u>5,793,075</u>	<u>5,037,539</u>
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Other income and gains		
Government grants (<i>Note</i>)	76,503	51,913
Interest income on bank balances, loan receivables, trade receivables and refundable rental deposits	17,407	13,328
Value-added tax incentives	10,381	–
Net foreign exchange gain	10,949	24,348
Rental income arising from operating lease payments that are at a fixed rate, net of negligible outgoing expenses	10,229	14,334
Game implementation income	1,467	1,851
Gain on fair value change of investment properties	5,081	9,310
Fair value gain on financial assets at fair value through profit or loss	219	–
Others	5,087	3,105
	<u>137,323</u>	<u>118,189</u>

Note: Government grants were received from the government of the People's Republic of China (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 RMB68,907,000 (2018: RMB45,752,000) for the year ended 31 December 2019 is recognised in profit or loss and (ii) the purchase of property, plant and equipment. Included in the government grants, there was a release of RMB7,596,000 (2018: RMB6,161,000) for the year ended 31 December 2019 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.

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:

2019

	Online and mobile games <i>RMB’000</i>	Education <i>RMB’000</i>	Mobile solution, products and marketing <i>RMB’000</i>	Property project <i>RMB’000</i>	Total <i>RMB’000</i>
Segment revenue	<u>3,299,626</u>	<u>2,395,398</u>	<u>98,051</u>	<u>–</u>	<u>5,793,075</u>
Segment profit (loss)	<u>2,185,395</u>	<u>(901,056)</u>	<u>(24,930)</u>	<u>(39,483)</u>	1,219,926
Unallocated other income and gains					28,514
Unallocated expenses and losses					<u>(382,171)</u>
Profit before taxation					<u>866,269</u>

2018 (restated)

	Online and mobile games <i>RMB’000</i>	Education <i>RMB’000</i>	Mobile solution, products and marketing <i>RMB’000</i>	Property project <i>RMB’000</i>	Total <i>RMB’000</i>
Segment revenue	<u>2,367,405</u>	<u>2,565,556</u>	<u>104,578</u>	<u>–</u>	<u>5,037,539</u>
Segment profit (loss)	<u>1,409,073</u>	<u>(495,138)</u>	<u>(16,508)</u>	<u>(12,190)</u>	885,237
Unallocated other income and gains					48,848
Unallocated expenses and losses					<u>(365,932)</u>
Profit before taxation					<u>568,153</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 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 reportable and operating segments:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Restated)
Online and mobile games	3,781,763	2,927,174
Education	3,105,351	2,835,697
Mobile solution, products and marketing	140,875	179,559
Property project	574,593	597,695
	<hr/>	<hr/>
Total segment assets	7,602,582	6,540,125
Unallocated	154,328	205,817
	<hr/>	<hr/>
	7,756,910	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 certain investment properties, equity instruments at fair value through other comprehensive income, loan receivables and certain 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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	18,150	6,138
– Under (over) provision in prior years	495	(1,746)
	<hr/>	<hr/>
	18,645	4,392
	<hr/>	<hr/>
PRC Enterprise Income Tax (“EIT”)		
– Current year	193,651	122,485
– Withholding tax	72	4,216
– Over provision in prior years	(2,836)	(2,499)
	<hr/>	<hr/>
	190,887	124,202
	<hr/>	<hr/>
Taxation in other jurisdictions		
– Current year	5,167	4,060
– Under provision in prior years	1,788	338
	<hr/>	<hr/>
	6,955	4,398
	<hr/>	<hr/>
Deferred taxation		
– Current year	(53,273)	(41,643)
	<hr/>	<hr/>
	163,214	91,349
	<hr/> <hr/>	<hr/> <hr/>

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

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

For the year ended 31 December 2019, the United States of America (“USA”) income tax rates applicable to subsidiaries incorporated in the USA is 21% (2018: 21%) for federal tax and 8.84% (2018: 8.84%) for state income tax.

The United Kingdom Corporation Tax Rate applicable to subsidiaries is 19% for the year ended 31 December 2019 (2018: 19%).

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

7. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends recognised as distribution during the year:		
2019 Interim – HKD0.15 (2018: 2018 Interim dividend of HKD0.10) per share	69,998	44,780
2018 Final – HKD0.15 (2018: 2017 Final dividend of HKD0.10) per share	69,809	44,589
	139,807	89,369

The final dividend of HKD0.25 (2018: HKD0.15) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB118,824,000 (2018: RMB69,809,000).

8. EARNINGS PER SHARE

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

	2019 RMB'000	2018 RMB'000
Earnings for the purpose of basic and diluted earnings per share:		
– Profit for the year attributable to the owners of the Company	807,212	545,573
	Number of shares	
	2019	2018
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	528,682	532,665
Effect of dilutive potential shares from the Company's share option scheme	1,772	805
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)	530,454	533,470

9. TRADE RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	720,940	468,871
Less: Allowance of credit losses	<u>(31,580)</u>	<u>(18,436)</u>
	<u>689,360</u>	<u>450,435</u>

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB383,984,000.

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.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade debtors		
0 – 30 days	505,653	233,932
31 – 60 days	52,617	107,939
61 – 90 days	23,083	45,849
Over 90 days	101,731	54,563
Receivables aged over 90 days with extended credit terms		
Due within one year	<u>6,276</u>	<u>8,152</u>
	<u>689,360</u>	<u>450,435</u>

10. TRADE AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	269,627	281,236
Accrued staff costs	277,804	224,604
Government grants	43,634	19,863
Receipt in advance	387	385
Other tax payables	37,310	38,633
Advertising payables	58,244	33,862
Payables for purchase of property, plant and equipment	107,674	27,767
Consultancy fee payables	8,643	25,000
Refundable rental deposits	419	2,952
Consideration payables	8,800	8,800
Payables for purchase of intangible assets	15,890	21,961
Accrued expenses	101,451	35,535
Others	<u>66,914</u>	<u>84,661</u>
	<u>996,797</u>	<u>805,259</u>
Analysed for financial reporting purpose:		
Current	980,522	783,040
Non-current	<u>16,275</u>	<u>22,219</u>
	<u>996,797</u>	<u>805,259</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
0 – 90 days	213,218	252,832
91 – 180 days	31,801	21,552
181 – 365 days	14,999	698
Over 365 days	9,609	6,154
	<u>269,627</u>	<u>281,236</u>

11. SECURED BANK BORROWINGS

The carrying amounts of the secured bank borrowings are repayable*:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within one year	132,470	138,509
Within a period of more than one year but not exceeding two years	44,702	81,599
Within a period of more than two years but within five years	201,366	88,005
	<u>378,538</u>	<u>308,113</u>

The carrying amounts of secured bank borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable:

Within one year	28,665	16,648
Less: Amounts due within one year shown under current liabilities	<u>(161,135)</u>	<u>(155,157)</u>
Amounts shown under non-current liabilities	<u>246,068</u>	<u>169,604</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2019, the borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries. (2018: secured by a pledged bank deposit, a pledge of property of a subsidiary, prepaid lease payments, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.)

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2019, the Group had pledged bank deposits, bank deposit over three months, restricted bank balances and bank balances and cash of approximately RMB2,286.5 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 31 December 2019, total secured bank borrowings of the Group amounted to approximately RMB407.2 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, right-of-use assets and corporate guarantee provided by the Company and its subsidiaries.

As at 31 December 2019, the Group had net current assets of approximately RMB2,186.0 million as compared with approximately RMB1,872.5 million as at 31 December 2018.

STAFF INFORMATION

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

	At 31 December 2019	At 30 June 2019	At 31 December 2018
Research and development	3,751	3,479	3,504
Selling and marketing	1,427	1,310	1,310
Accounting, finance and general administration	967	1,004	955
Production	315	329	331
Total	<u>6,460</u>	<u>6,122</u>	<u>6,100</u>

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

As at 31 December 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)	48.21%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	1,260,850 (L)	0.24%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	255,822,457 (L)	48.21%
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)	48.21%
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	642,519 (L)	0.12%
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 36.01% 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 holding in aggregate 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 3.58% 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 2.62% 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 48.21% 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 0.24% of the issued voting shares of the Company which is represented by beneficial interest of 1,260,850 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 the underlying shares of interest of 338,500 shares options granted by the Company.
7. Lee Kwan Hung, Eddie is interested in 0.12% of the issued voting shares of the Company which is represented by personal interest of 224,519 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 31 December 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 31 December 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 shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	36.01%
IDG Group (Note 2)	The Company	Beneficial owner	78,333,320 (L)	14.76%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	78,333,320 (L)	14.76%
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:

- The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
- 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%, 9.80%, 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:
 - 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.
 - 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.
 - 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.
- 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 31 December 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 31 December 2019, 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 year ended 31 December 2019 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options			As at
			1 January 2019	Granted	Exercised	Lapsed	31 December 2019
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	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
Others							
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	—	76,875	—	174,450
	25.04.2014	14.66	278,000	—	—	—	278,000
	11.05.2015	27.75	134,000	—	—	—	134,000
Total			<u>2,689,684</u>	<u>—</u>	<u>232,600</u>	<u>—</u>	<u>2,457,084</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 31 December 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 31 December 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.

As at 31 December 2019, 400,000 awarded shares were granted under the Best Assistant Share Award Scheme.

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 87.68% to approximately 79.33%.

As at 31 December 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 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 31 December 2019, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

ISSUE OF SECURED CONVERTIBLE AND EXCHANGEABLE BONDS BY BEST ASSISTANT AND ISSUE OF UNLISTED WARRANTS 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.

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.

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 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 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**”).

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 and the 33,000,000 Top-up Subscription Shares had been allotted and issued 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 HKD774.28 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.

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 year ended 31 December 2019.

FINAL DIVIDEND

At the Board meeting held on Tuesday, 31 March 2020, it was proposed that a final dividend of HKD0.25 per share for the year ended 31 December 2019, amounting to approximately RMB118,824,000 be paid on or before Thursday, 9 July 2020 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Tuesday, 9 June 2020. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (the "2020 AGM") to be held on Wednesday, 3 June 2020.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2020 AGM

The Company's register of members will be closed from Thursday, 28 May 2020 to Wednesday, 3 June 2020, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the AGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to 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 by no later than 4:30 p.m. on Wednesday, 27 May 2020 for registration of the relevant transfer.

(b) For determining the entitlement to the proposed final dividend

The Board has recommended the payment of a final dividend of HKD0.25 per share for the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on Tuesday, 9 June 2020 subject to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 9 June 2020 to Wednesday, 10 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, 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 for registration not later than 4:30 p.m. on Monday, 8 June 2020.

PUBLICATION OF FINAL RESULTS AND 2019 ANNUAL REPORT

The final results announcement of the Company is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.nd.com.cn>). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.nd.com.cn>) in due course.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Wednesday, 3 June 2020. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

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 year 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.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2019 as set out in the results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the results announcement.

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 audited consolidated financial statements for the year ended 31 December 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 LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

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

Hong Kong, 31 March 2020

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.