

# 網龍網絡控股有限公司

NETDRAGON WEBSOFT HOLDINGS LIMITED



NetDragon

# 2020 INTERIM REPORT

(incorporated in the Cayman Islands with limited liability)

Stock Code: 777





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# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) FINANCIAL HIGHLIGHTS AND REVIEW

### 2020 First Half Financial Highlights

- Revenue was RMB2,822.9 million, representing a 5.6% increase year-over-year.
- Revenue from the games business was RMB1,647.3 million, representing 58.4% of the Group's total revenue and registering a 4.5% increase year-over-year.
- Revenue from the education business was RMB1,137.9 million, representing 40.3% of the Group's total revenue and registering an 8.5% increase year-over-year.
- Gross profit was RMB1,869.3 million, representing a 0.2% increase year-over-year.
- Core segmental profit<sup>1</sup> from the games business was RMB943.6 million, representing a 0.5% decrease year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB377.3 million, representing a 33.6% increase year-over-year. The increase was due partly to increased staff salaries on a stable headcount, and higher hosting charge as our active users ramped up significantly during the Covid-19 school closure.
- Cash inflow from operating activities was RMB528.4 million, representing a 25.7% increase year-over-year.
- Non-GAAP operating profit<sup>2</sup> was RMB509.2 million, representing a 6.2% decrease year-over-year.
- Non-GAAP profit attributable to owners of the Company<sup>2</sup> was RMB449.5 million, representing a 5.5% decrease year-over-year.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### Segmental Financial Highlights

(RMB'000)	2020 First Half		2019 First Half	
	Gaming	Education	Gaming (Restated)	Education (Restated)
Revenue	<b>1,647,334</b>	<b>1,137,941</b>	1,575,849	1,048,529
Gross profit	<b>1,583,529</b>	<b>285,208</b>	1,513,024	351,916
Gross margin	<b>96.1%</b>	<b>25.1%</b>	96.0%	33.6%
Core segmental profit (loss) <sup>1</sup>	<b>943,605</b>	<b>(377,294)</b>	948,701	(282,425)
Segmental operating expenses <sup>3</sup>				
– Research and development	<b>(305,790)</b>	<b>(258,219)</b>	(255,204)	(239,038)
– Selling and marketing	<b>(178,765)</b>	<b>(242,625)</b>	(160,730)	(251,962)
– Administrative	<b>(157,773)</b>	<b>(141,526)</b>	(147,376)	(128,330)

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

*Note 2:* To supplement the consolidated results of the Group prepared in accordance with HKFRSs, the use of non-GAAP measures are provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP measures are not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP measures of the Group excludes share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, impairment of goodwill and intangible assets, fair value gain of financial assets at fair value through profit or loss, fair value gain on derivative financial instruments, finance cost, interest income on pledged bank deposit and exchange gain (loss) on secured bank borrowings, convertible preferred shares, derivative financial instruments and convertible and exchangeable bonds.

*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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is excited with the overall achievements in the first half of 2020 and the unique opportunities that are ahead of the Group. Revenue reached RMB2,822.9 million with 5.6% year-over-year growth, and at the same time the Group achieved a 25.7% year-over-year increase in operating cashflows. While the Covid-19 global pandemic has presented short-term challenges, it has put the world in a position to embrace the adoption of education technologies in a way that has never been seen before.

Education business recorded revenue growth of 8.5% year-over-year in the first half of 2020, as Promethean, the subsidiary of the Group, continued to build on its global market leadership position to gain further market share, resulting in 25.6% panel volume shipment growth year-over-year despite global school closure. The growth that the Group has achieved in this market is a testament to the differentiated product value proposition and the unique sales network. The pandemic also led to accelerating demand of blended learning solutions around the world, and to further capitalize on this opportunity, the Group has launched Edmodo Enterprise, a fully-integrated blended learning platform designed with a SaaS monetization model. In the past few months, the go-to-market of Edmodo Enterprise has scaled quickly, leading to country or state-wide adoptions in Egypt, Ghana, Thailand and the US. The Group is also excited to announce that in August 2020, has signed an MOU with the Ministry of Education of Egypt with a mutual commitment to deliver a customized country-wide blended learning solution that integrates Promethean and Edmodo offerings which will generate sizable multi-year revenue stream.

In China, the Group continued to strengthen user coverage and monetization foundation. With over 1 million of monthly active users of the flagship teacher-facing lesson preparation and delivery platform 101 Education PPT, the Group is aggressively developing premium services with the platform to expand use cases and drive user engagement. Meanwhile, One-Stop Learning platform, a platform that enables teachers and students to communicate, teach and learn, recorded increased average monthly active users of over 10 times compared to second half of 2019, with peak MAU of 5 million. With higher traffic and broader user coverage, the Group is in discussion with multiple provincial educational authorities to pilot different services with a SaaS monetization model.

Gaming business maintained its growth trajectory with 4.5% year-over-year revenue growth in the first half of 2020, the Group continued to see rising players’ activities and engagement in the flagship intellectual properties (“IP”) Eudemons Online (魔域), leading to a 41.4% year-over-year increase in DAU which provides the Group with a solid foundation to build the future growth. The Group is also pleased with the performance of the overseas games that generated very strong revenue growth year-over-year in the first half of 2020, as the targeted marketing aiming at overseas new users has paid off. Looking forward, the Group has a robust pipeline of exciting new games to be launched within the next several months across multiple IPs. In addition, the Group is introducing IP rejuvenation initiatives for the Eudemons Online (魔域) IP to expand to young gamers as part of the growth strategy to maximize IP values.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### Gaming Business

Gaming business revenue increased by 4.5% year-over-year to RMB1,647.3 million in the first half of 2020.

Covid-19 has impacted players' in-game spending to a certain extent, as well as the development and testing of the gaming contents. Despite these challenges, the flagship IP Eudemons Online (魔域) continued to record solid revenue growth driven primarily by substantial increase in number of active players in the first half of 2020 as the Group focused the effort on generating more traffic, higher user engagement, and stronger IP recognition, which will serve to build a solid foundation to sustain the future growth. In the overseas markets, revenue growth was its strongest in recent years driven by the implementation of aggressive targeted marketing to bring in new users, as well as sales channels and pay points optimization.

The Group is also pleased with the performance of the other two major IPs. Conquer Online (征服) performed well in the first half of 2020, as its ninja-themed new expansion pack with enhanced graphics and new game features has stimulated engagement and spending among gamers. Heroes Evolved (英魂之刃) also continued to focus on strengthening its IP value in the first half of 2020. During the period, the Group ran IP crossovers with popular anime OVERLORD to drive user engagement.

Looking forward, the Group will continue to drive revenue and profit growth by maximizing the IP values, as well as expanding the IP portfolio. In addition, the Group will continue to implement the strategy to expand the overseas revenue, which represented 11.9% of the revenue in the first half of 2020 with significant room for future growth given the strength of the IPs and development capabilities. Further, as part of the strategy to maximize IP values, the Group is introducing rejuvenation initiatives for the legendary Eudemons Online (魔域) IP to increase the IP's appeal to young gamers, in both China and overseas.

Last but not least, the pipeline is robust with multiple new games ready to be launched by the end of 2020. The upcoming new titles include Legends of Eudemons (魔域傳說), Eudemons II (魔域手遊II), Eudemons Storm II (風暴魔域II), and Under Oath (終焉誓約), all of which have obtained regulatory licenses.

#### Education Business

For the first half of 2020, education business recorded revenue of RMB1,137.9 million, up 8.5% year-over-year. To capitalize on the opportunities presented by Covid-19, the Group is making strong progress in leveraging the core competencies of being able to provide best-in-class classroom learning and distance learnings solutions – the result is a unique blended learning model, a model that educators around the world are embracing as the Group transitioned into the new normal of learning.

Under that backdrop, Promethean performed exceptionally well by gaining significant market share amid a challenging market which saw a significant drop in market volume in the second quarter of 2020. The market challenges also provided with an opportunity to solidify the market leadership position, as Promethean's panel shipment outgrew the market growth in the first half of 2020 by 20.5%. Its performance was particularly strong in emerging markets, highlighted by a sizable tender order in Egypt during the first half of 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Education Business (Cont'd)

As a result of unprecedented demand for distance learning under Covid-19, Edmodo, a learning platform, has seen substantial uptick in its users, with monthly active users ("MAU") reaching a record high of over 17 million during the first half of 2020. Such growth was driven by the launch of Edmodo Enterprise platform in the first quarter of 2020. Edmodo Enterprise is a fully-integrated blended learning platform that enables educational authorities to drive top-down adoption of a unique blended learning experience across an entire school, district and country, implemented with a SaaS or subscription monetization model. Since its official rollout, the Group has quickly built and scaled the sales and marketing network as well as the operating infrastructure, and are now in a strong position to scale the commercialization of this platform at a global scale. Edmodo will also leverage the existing strong sales network of Promethean as the Group continue to pursue a 2G and 2B go-to-market model with this new platform. In the past few months, the Group has seen country – or state-wide adoptions in Egypt, Ghana, Thailand and the US. With this traction, the Group is excited about the prospect of significantly scaling up Edmodo monetization in the second half of 2020.

The Group is also excited to announce that in August 2020, the Group has signed an MOU with the Ministry of Education of Egypt with a mutual commitment to deliver a customized country-wide blended learning solution that integrates Promethean and Edmodo offerings which will generate sizable multi-year revenue stream. The implementation of this contract is expected to commence in the near term, and the Group will also aim to replicate this country-wide model as the Group continues to scale our "Country Strategy" globally.

In China, the strategy is to strengthen both user coverage monetization foundation. Similar to the overseas business, the rising demand for distance learning under Covid-19 has resulted in sharp uptick in user traffic for the learning products. With over 1 million of monthly active users of the flagship teacher-facing lesson preparation and delivery platform 101 Education PPT, the Group is aggressively developing premium services with the platform to expand use cases and drive user engagement. On the other hand, One-Stop Learning platform, a learning platform that enables teachers and students to communicate, teach and learn, recorded increase in average monthly active users by 10 times compared to second half of 2019, with peak MAU of 5 million. In view of high user coverage, the Group is exploring SaaS monetization opportunities with multiple provincial educational authorities on delivering 2G, 2B and 2C services. Lastly, the Group rolled out services and resources in July 2020 for the National Center for Educational Technology ("NCET") VLAB Teaching Service System. In the fall semester of this year, NCET will launch pilot projects of virtual experimental teaching in primary and secondary schools in nearly 70 schools in 6 provinces across the country. It is expected that after the completion of the pilot, the service will be promoted to primary and secondary schools across the country through a SaaS model and generate revenue.

Looking forward, as blended learning becomes a global new normal, it is believed that the unique capabilities and the integrated product offerings of the Group will put the Group in the strongest position to capitalize on the opportunities ahead, and as such, the Group is excited about the outlook in the second half of 2020 as the Group focuses on addressing exactly what the market needs with a sustainable monetization model.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

Corporate Development Milestones and Awards for the First Half of 2020

#### Corporate Development Milestones/Recognitions

May Fujian Province Huayu Education Technology Co. Ltd.\* (福建省華漁教育科技有限公司) was awarded "Unicorn Enterprise"\* 「獨角獸企業」 by the Office of the Construction Leading Group of Digital Fujian of Fujian Province (福建省數字福建建設領導小組辦公室)

June Fujian NetDragon Websoft Co. Ltd. (福建網龍計算機網絡信息技術有限公司) was awarded "2020 Fujian Provincial Leading Enterprise in Industry and Information Technology"\* 「2020年福建省工業和信息化省級龍頭企業」 by the Department of Industry and Information Technology of Fujian Province (福建省工業和信息化廳)

Fujian TQ Digital Inc. (福建天晴數碼有限公司) was awarded "2020 Fujian Provincial Leading Enterprise in Industry and Information Technology"\* 「2020年福建省工業和信息化省級龍頭企業」 by the Department of Industry and Information Technology of Fujian Province (福建省工業和信息化廳)

\* For identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

### (3) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2020, the Group had pledged bank deposits, bank deposit with original maturity over three months, restricted bank balances and bank balances and cash of approximately RMB4,106.5 million (31 December 2019: RMB2,286.5 million).

As at 30 June 2020, the Group had net current assets of approximately RMB3,784.5 million as compared with approximately RMB2,186.0 million as at 31 December 2019.

### (4) GEARING RATIO

The gearing ratio (consolidated secured bank borrowings/consolidated total equity) was 0.08 (31 December 2019: 0.08). As at 30 June 2020, total secured bank borrowings of the Group amounted to approximately RMB473.7 million (31 December 2019: RMB407.2 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 included in right-of-use assets and corporate guarantee provided by the Company and its subsidiaries.

### (5) CAPITAL STRUCTURE

As at 30 June 2020, the Group's total equity amounted to approximately RMB6,251.8 million (31 December 2019: RMB5,361.0 million).

### (6) FOREIGN CURRENCY RISKS

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### (7) CREDIT RISKS

As at 30 June 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

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

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### (8) LIQUIDITY RISK

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

### (9) STAFF INFORMATION

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

	<b>At 30 June 2020</b>	At 31 December 2019	At 30 June 2019
Research and development	<b>3,726</b>	3,751	3,479
Selling and marketing	<b>1,456</b>	1,427	1,310
Accounting, finance and general administration	<b>968</b>	967	1,004
Production	<b>275</b>	315	329
Total	<b>6,425</b>	6,460	6,122

# MANAGEMENT DISCUSSION AND ANALYSIS

## (10) PERFORMANCE EVALUATION

### Human Resources

The Group had its overall staff headcount of 6,425 as at 30 June 2020.

1. In the first half of 2020, talents were upgraded and more focused by integrating our corporate strategies and objectives. A large number of talents in various professional fields were attracted by our extensive business platform and rapidly growing business trend, continuously absorbing best available talents for the Company; consequently, a total of 430 talents were recruited and employed, most of them were elites in the areas of games and education. Meanwhile, the Group carried out on-line nation-wide Spring campus recruitment campaigns in 2020 for key renowned universities and joined the “Pilot Program” (領航員計劃), in search of elite graduates to continuously bring in new blood into the Company. Moreover, in respect of on-campus recruitment brand, we were awarded the “2020 Best Employer and Campus Recruitment Case of the Year” (2020中國年度最佳僱主校招案例獎) jointly organized and assessed by Zhaopin.com and Social Survey and Research Center of Peking University, the “2020 Human Resources Management Excellent Award” (2020人力資源管理傑出獎) awarded by 51job.com and “The Most Influential Employer of 2020” (2020最具影響力僱主) by Haitou.cc.
2. In the midst of Covid-19 pandemic, in order to maintain harmonious and stable labor relations in extraordinary times, the Group effectively responded to the pandemic and implemented pandemic management and control by externally gaining an understanding of the requirements under applicable policies from and reporting promptly the Company’s status to the government authorities, and internally implementing measures such as work-from-home policy for employees, propaganda of the protective measures for Covid-19 pandemic and release of information on the pandemic, as well as establishment of a daily health checking system for employees to timely receive updates on their health status.
3. A human resources share service centre (SSC) was established. Through building up a standardized service system, the SSC provided effective and convenient services to employees and assisted in human resources management strategy upgrade by monitoring service quality and employee experience, promoting streamline of workflow in relation to human resources, division of labor in an orderly manner and reduction of cost and enhancement of efficiency, thereby enhancing organizational efficiency.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (10) PERFORMANCE EVALUATION (Cont'd)

### Human Resources (Cont'd)

4. NetDragon was active in exploring the best model for organizational management, furthering the development of flat organization, breaking the barriers among internal departments and building up an empowering platform for the organization. In respect of talent development, the organization and talent system was enhanced in line with the development trend and needs of the Company. Through intelligent analysis of data using AI, empowerment of employees in self-management and development, continuous optimization of the talent training and promotion mechanism, establishment of the talent pool system, and setting up a flexible promotion mechanism, it was ensured that the development of employees were in line with the needs of development for the Company to boost rapid growth of its business.
5. In terms of performance management, through increasing use of AI technology, on the one hand, the efficiency of performance management was enhanced by replacing sessions of low value and no value with AI; on the other hand, through AI analysis, employees were guided to carry out the work with high adding value that were meaningful to the organization. Their performance was assessed in fair and just manner based on output and quality of their work. By relying on AI analysis follow-ups were carried out with low performance employees by providing them with improvement plans so as to fully motivate them to work positively, proactively and innovatively. As a result, the Company could enhance the output level of the organization to boost rapid growth of its business.
6. In terms of remuneration and benefits, due to sustained attention to remuneration dynamic in the market, differentiated remuneration strategies were developed. Focusing on high value positions such as management personnel and senior technical professionals, the Group aimed at attracting and retaining core talents as the subject of corporate value creation. In order to fully unleash the driving force of the short-term incentives and due to sustained attention to its effectiveness, collation and improvements were made for the incentives. Thanks to continuous improvement of the corporate welfare system, the Group was awarded the accreditation for "Healthy Workplace (Diamond Status)" (健康場所鑽石級) jointly organized and assessed by the HR Excellence Center and the Health Communication Institute of Fudan University.
7. In respect of internal staff training, the Group continuously improved the quality of the development of position certification, built a reasonable and effective certification framework and constantly promoted and implemented the policy that required employees to obtain certificates necessary for performing respective duties. Staff training was integrated with the education philosophies and products of the Company to ensure supply of high quality talents that fulfilled its need for development. During the time of Covid-19 pandemic, we focused on enhancing on-line learning capabilities. New employee orientations, departmental trainings and external conferences on technologies and among others were held on-line or on platforms using NetDragon's advanced education technology, and AI technology were applied in trainings and operation and certification thereof, so as to establish an industry leading standard for AI+ internal corporate training.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (11) STAFF TRAININGS

### Staff Training

NetDragon University is a base for nurturing management and technological talents of the Group. As a powerful support and an important part of the overall strategy of the Group, NetDragon University is committed to providing professional and systematic training services to staff. In 2020, according to different business areas, NetDragon University has established ten functional organizations including management college, curriculum research and development department, verification research and development department, learning operation department, expansion college, online learning college, enterprise-school cooperation department, digital education college, programming technology college and design college. Based on the application practice of Huayu Education concepts in NetDragon's post certification training, we have improved the NetDragon's learning methodology system promoted the application of such system both internally and externally. We have created the NetDragon job skill certification system based on the transaction list, which has been applied to help NetDragon's students develop their careers and upgrade our talents.

### Achievements in the first half of 2020

In the first half of the year, to support the strategic development and key businesses of the Company, externally, the enterprise-school cooperation department completed the Fuzhou Software Shuangrong project and the construction of key specialty pilot; while the learning operation department held the MAD forum to build up NetDragon's development ecosystem, thereby facilitating the relevant projects in the education business of the Company to achieve annual goals and upgrading of service objectives. Also, in response to the request for upgrading employees in key positions brought by the Company at the beginning of the year, deeper cooperation with the engineering college and programming center was formed to upgrade the skills of key positions. In management training, according to the Company's requirements of competent standards for management positions, the development, improvement, promotion and application of training solutions were managed through the 7-step Qianlong series for management positions to assist management upgrading of the Company in 2020.

In the first half of 2020, NetDragon University organized a total of 71 various training events with total attendance of 3,577 participants (excluding external forums and teaching within NetDragon University).

### *External Training:*

Fuzhou Software Shuangrong project: Based on the Company's key businesses and in quick response to requirements, in the first half of 2020, there were 8 lecturers supporting professional teaching at Fuzhou Software, covering 7 courses with total teaching time of 368 hours.

Make A Difference ("MAD") Forum: The MAD Forum is aimed to building the development ecosystem in places where NetDragon operates such as Fuzhou, Xiamen, Chengdu, Wuhan, Chongqing and Beijing, which may be developed into the developer alliance of NetDragon's education platform in the future to promote NetDragon's education platform technology, attract outstanding talents and facilitate external cooperation. Currently, a total of eight sessions have been organized with offline attendance of almost 800 participants, accumulating almost 82,000 online clicks.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (11) STAFF TRAININGS (Cont'd)

Achievements in the first half of 2020 (Cont'd)

### *Internal Training:*

Inheritance and implementation of corporate culture: First of all, in terms of corporate culture promotion, we used the form of clearing game levels and created a craze for “corporate culture certification exam” in various departments within the Company. Secondly, we create a unique cultural book product “Heart Sign-in Articles Collection (心簽到)”, which is unique to NetDragon, to disseminate and share “valuable content” in the relevant articles, develop a corporate culture of thinking every day and promote communication, learning and growth for everyone. Up to now, five issues have been published, each of which has selected over 200 excellent articles from over 200 authors with a total of more than 400,000 words. Currently, a total of 2,500 books have been printed.

Skills promotion project for key positions: In response to the Company’s requirements for upgrading students in key positions, we have conducted in-depth cooperation with the programming center, engineering college and other departments in skills upgrading, and launched the engineering college architecture special project, Java post intermediate skills certification project, commercial sales essential skills certification project, programming center assistant main program development special project, campus recruitment training and training camp before formal employment for program development (C++), campus recruitment training and training camp before formal employment for program development (Web frontend), U3D program development intermediate certification and other projects. By integrating internal and external training resources, sorting out key position learning maps and competency standards, we facilitate core business units to promote and implement key position talent development projects, and promote the enhancement of competence/skill improvement/performance improvement of key position personnel in core business units.

Management training projects: Based on the competence requirements for management positions in the Company, we improved the development and iteration of a series of management post training solutions which are matched with them such as 7-step Qianlong (潛龍七式) and DDI Cool Leadership (DDI酷領導力) to facilitate the management upgrading of the Company; we conducted deep cooperation with OD to unify and organize the management post compulsory learning certification, completed the Taihe Yayu project and proceeded with the management post compulsory study project. We adopted the concept of “Double-teacher classroom (雙師課堂)” and the O2O operation mode (online micro-classes & community + practical tasks + offline workshops) to complete the study of 7-step Qianlong (潛龍七式) and DDI Cool Leadership (DDI酷領導力) more effectively.

### *Routine training projects:*

Skills training: During the first half of the year, NetDragon University organized a total of 30 trainings on skills with 2,468 participants, including 20 NetDragon Skills Forums with 2,006 participants.

Experiential training: The development of 5 teams was completed during the first half of the year with 176 participants.

New staff training: During the first half of the year, a total of 10 training sessions were organized for new staff with 341 participants and one marathons was organized for new staff with 24 participants.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (11) STAFF TRAININGS (Cont'd)

Achievements in the first half of 2020 (Cont'd)

#### *Certification projects:*

Design methodology certification: During the first half of the year, a total of 7 sessions of design methodology primary certification were organized with 232 participants in total; and 11 sessions of design methodology improvement class certification with 60 participants in total.

Engineering college skills certification: The development and modification of certification for 59 programming posts was completed.

Programming center post certification: It included 18 courses, namely, C++ Coding Standard, A NetDragon Roid Coding Standard, JAVA Coding Standard, C++ Development Certification, SVN Source Code Management Certification, STL Certification, MySQL Certification, UML Certification, U3D Primary Certification, Security Technology Certification, Game General Certification, Git Client Certification, Git Command Certification.

#### *Construction of Platform Function and Content:*

Construction of platform function: In response to the requirements for essential post knowledge certification, we promoted to launch the optimization functions of question database and content library. We conducted internal test for AI learning companion function to support the AI training projects.

Construction of platform content: During the first half of 2020, a total of 363 courses were uploaded, including 34 training certification courses.

Platform operation: During the first half of 2020, the accumulative learning time was 39,957.72 hours with average learning time per person of 6.25 hours; the Company organized 182 examinations which are three examination questions per day in nature, with average daily participation of 1,209 persons and a rate of accuracy of 53%.

Overview of administrator cultivation: During the first half of the year, a total of 49 administrators were cultivated and the accumulative number of administrators cultivated amounted to 238 persons.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (12) CORPORATE CULTURE

### Passion

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

### Learning

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

### Innovation

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

### Aggressiveness

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

### Pursuit of excellence

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### (12) CORPORATE CULTURE (Cont'd)

#### Fairness

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

#### Customer comes first

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

### (13) INTERIM DIVIDEND

On 27 August 2020, the Board has resolved to declare an interim dividend of HKD0.25 per share for the six months ended 30 June 2020 (2019: HKD0.15 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 11 September 2020. It is expected that the interim dividend will be distributed on or before 19 October 2020.

### (14) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 11 September 2020 to Monday, 14 September 2020, 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 2020, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 10 September 2020.

## OTHER INFORMATION

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

As at 30 June 2020, 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:

<b>Name of Director</b>	<b>Name of Company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	250,822,457 (1)	44.48%
Liu Dejian <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (1)	99.96%
Leung Lim Kin, Simon <i>(Note 4)</i>	The Company	Beneficial owner	5,353,580 (1)	0.95%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and beneficiary of certain trust	250,822,457 (1)	44.48%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (1)	99.96%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	250,822,457 (1)	44.48%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (1)	99.96%

## OTHER INFORMATION

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

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or	Approximate percentage of shareholding
			amount of registered capital contributed	
			<i>(Note 1)</i>	
Chen Hongzhan <i>(Note 5)</i>	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	1.99%
Chao Guowei, Charles <i>(Note 6)</i>	The Company	Beneficial owner	438,500 (L)	0.08%
Lee Kwan Hung, Eddie <i>(Note 7)</i>	The Company	Beneficial owner	656,519 (L)	0.12%
Liu Sai Keung, Thomas <i>(Note 8)</i>	The Company	Beneficial owner	818,019 (L)	0.15%

*Notes:*

- The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
- Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 33.88% of the issued voting shares of the Company. Liu Dejian is also interested in 0.37% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

Liu Luyuan is interested in 4.12% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 21,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

Zheng Hui is interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.37% 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 2.47% of the issued voting shares of the Company. Zheng Hui is also interested in 0.27% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 44.48% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

## OTHER INFORMATION

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

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 0.95% of the issued voting shares of the Company which is represented by beneficial interest of 1,353,580 shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.
5. Chen Hongzhan is interested in 1.99% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. Chao Guowei, Charles is interested in 0.08% of the issued voting shares of the Company which is the underlying shares of interest of 438,500 shares options granted by the Company.
7. Lee Kwan Hung, Eddie is interested in 0.12% of the issued voting shares of the Company which is represented by personal interest of 138,519 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.15% of the issued voting shares of the Company which is represented by personal interest of 300,019 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2020, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

## OTHER INFORMATION

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

So far as is known to the Directors, as at 30 June 2020, 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:

<b>Name of Shareholder</b>	<b>Name of Company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	33.88%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,033,320 (L)	13.84%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,033,320 (L)	13.84%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,211,635 (L)	12.98%

## OTHER INFORMATION

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

*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 1.92%, 9.18%, 1.88% and 0.86% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
  - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
  - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
  - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the 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 2020.

## OTHER INFORMATION

### SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "2018 Share Option Scheme") to replace the existing share option scheme which expired on 12 June 2018 (the "2008 Share Option Scheme"). Details of the share options outstanding and movement during the period ended 30 June 2020 are as follows:

#### 2008 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options				As at
			1 January 2020	Granted	Exercised	Cancelled	Lapsed	30 June 2020
<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	341,867	-	-	-	-	341,867
	22.07.2011	4.60	8,000	-	-	-	-	8,000
	23.04.2012	5.74	130,017	-	2,500	-	-	127,517
	12.09.2012	7.20	50,250	-	-	-	-	50,250
	16.01.2013	11.164	174,450	-	35,700	-	-	138,750
	25.04.2014	14.66	278,000	-	-	-	-	278,000
<b>Total</b>			<u>2,457,084</u>	<u>-</u>	<u>338,200</u>	<u>-</u>	<u>-</u>	<u>2,118,884</u>

Note:

- During the period under review, 300,000 share options were exercised by Director of the Company.

## OTHER INFORMATION

### SHARE OPTION SCHEME (Cont'd)

#### 2018 Share Option Scheme

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options				As at
			1 January 2020	Granted	Exercised	Cancelled	Lapsed	30 June 2020
<b>Executive Directors</b>								
Leung Lim Kin, Simon	24.01.2020	21.07	-	4,000,000	-	-	-	4,000,000
<b>Independent non-executive Directors</b>								
Chao Guowei, Charles	24.01.2020	21.07	-	100,000	-	-	-	100,000
Lee Kwan Hung, Eddie	24.01.2020	21.07	-	100,000	-	-	-	100,000
Liu Sai Keung, Thomas	24.01.2020	21.07	-	100,000	-	-	-	100,000
<b>Others</b>								
Employees	24.01.2020	21.07	-	<u>2,000,000</u>	-	-	-	<u>2,000,000</u>
<b>Total</b>			-	<u>6,300,000</u>	-	-	-	<u>6,300,000</u>

## OTHER INFORMATION

### SHARE AWARD SCHEME

#### The Company

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

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

120,000 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 13 January 2020. 776,640 awarded shares granted to a number of selected participants were outstanding as at 30 June 2020. 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 438,320 vested awarded shares as at 30 June 2020, a total of 310,890 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.

## OTHER INFORMATION

### SHARE AWARD SCHEME (Cont'd)

#### Best Assistant Education Online Limited ("Best Assistant") (Cont'd)

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

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

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

As at 30 June 2020, no awarded shares were granted under the Best Assistant Share Award.

### 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 90.36% to approximately 83.40%.

As at 30 June 2020, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

## OTHER INFORMATION

### 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 2020, 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 WARRANT UNDER SPECIFIC MANDATE

On 10 November 2019, the Company, Best Assistant, NetDragon BVI, Digital Train, Promethean World Limited, Nurture Education (Cayman) Limited (the "Investor"), Madison Pacific Trust Limited as the Agent and the Security Agent entered into the Bond and Warrant Purchase Agreement (the "Purchase Agreement"), pursuant to which (i) Best Assistant agreed to issue to the Investor and the Investor agreed to purchase the Convertible and Exchangeable Bonds in the aggregate principal amount of USD150 million (equivalent to approximately HKD1,174.5 million); and (ii) simultaneously with the issue of the Convertible and Exchangeable Bonds, the Company would issue to the Investor the unlisted warrants.

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

As at 30 June 2020, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistant and no warrants were converted into shares of the Company.

## OTHER INFORMATION

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

On 13 February 2020, the Company entered into the placing and subscription agreement (the "Placing and Subscription Agreement") with DJM Holding Ltd. (the "Vendor"), Mr. Liu Dejian and China International Capital Corporation Hong Kong Securities Limited (the "Placing Agent"), pursuant to which (i) the Vendor agreed to place, through the Placing Agent, on a fully underwritten basis, 33,000,000 ordinary shares of the Company held by the Vendor (the "Top-up Placing Shares") at the price of HKD23.70 per Top-up Placing Share; and (ii) the Vendor conditionally agreed to subscribe for 33,000,000 new ordinary shares of the Company to be subscribed for by the Vendor, being the number of the Top-up Placing Shares actually placed by the Placing Agent on behalf of the Vendor pursuant to the terms of the Placing and Subscription Agreement (the "Top-up Subscription Shares") at the Price of HKD23.70 per Top-up Subscription Share (the "Top-up Placing and Subscription"). The Directors believe that the Top-up Placing and Subscription will strengthen the financial position of the Company and enhance the likelihood of the Company to capitalize on revenue opportunities of the education business globally, particularly in the emerging markets as well as user scaling and monetization of the online education ecosystem.

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. The net price of each Top-up Subscription Share is approximately HKD23.46.

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

<b>Net proceeds raised from the Top-up Placing and Subscription</b>	<b>Intended use of the proceeds</b>	<b>Utilised proceeds as of 30 June 2020</b>	<b>Unutilised proceeds as of 30 June 2020</b>
HKD773.44 million	General corporate purpose and to fund the expansion of education business	HKD280.62 million	HKD492.82 million

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

## OTHER INFORMATION

### MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2020.

### INTERIM DIVIDEND

On 27 August 2020, the Board has resolved to declare an interim dividend of HKD0.25 per share for the six months ended 30 June 2020 (2019: HKD0.15 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 11 September 2020. It is expected that the interim dividend will be distributed on or before 19 October 2020.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 11 September 2020 to Monday, 14 September 2020, 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 2020, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 10 September 2020.

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

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

Mr. Lee Kwan Hung, Eddie resigned as an independent non-executive director of Landsea Green Properties Co., Ltd on 19 June 2020.

### COMPETITION AND CONFLICT OF INTERESTS

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

## OTHER INFORMATION

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

### AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2020 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 2020, 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, 27 August 2020

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# Deloitte.

# 德勤

**TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries set out on pages 32 to 90, which comprise the condensed consolidated statement of financial position as of 30 June 2020, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

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

### CONCLUSION

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

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

27 August 2020

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		RMB' 000	RMB' 000
	NOTES		
Revenue	4	<b>2,822,858</b>	2,672,547
Cost of revenue		<b>(953,587)</b>	(807,554)
Gross profit		<b>1,869,271</b>	1,864,993
Other income and gains	4	<b>105,907</b>	52,753
Impairment loss under expected credit loss model, net of reversal	6	<b>(15,242)</b>	(81)
Selling and marketing expenses		<b>(427,022)</b>	(421,809)
Administrative expenses		<b>(441,632)</b>	(431,654)
Development costs		<b>(568,906)</b>	(502,390)
Other expenses and losses		<b>(84,054)</b>	(79,080)
Share of losses of associates		<b>(2,043)</b>	(951)
Share of losses of joint ventures		<b>(1,850)</b>	(1,418)
Operating profit		<b>434,429</b>	480,363
Interest income on pledged bank deposits		<b>1,595</b>	1,513
Exchange (loss) gain on secured bank borrowings, convertible preferred shares, derivative financial instruments and convertible and exchangeable bonds		<b>(22,726)</b>	123
Net gain on convertible preferred shares		-	13,436
Net gain on financial assets at fair value through profit or loss		<b>14,930</b>	-
Fair value gain on derivative financial instruments		<b>6,971</b>	-
Finance costs		<b>(64,677)</b>	(11,374)
Profit before taxation		<b>370,522</b>	484,061
Taxation	7	<b>(92,728)</b>	(108,575)
Profit for the period	8	<b>277,794</b>	375,486

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		<b>Six months ended 30 June</b>	
	NOTE	<b>2020 (Unaudited) RMB' 000</b>	2019 (Unaudited) RMB' 000
Other comprehensive income (expense) 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>9,145</b>	(478)
Item that will not be reclassified to profit or loss:			
Fair value gain on equity instruments at fair value through other comprehensive income		<b>1,390</b>	63
Other comprehensive income (expense) for the period		<b>10,535</b>	(415)
Total comprehensive income for the period		<b>288,329</b>	375,071
Profit (loss) for the period attributable to:			
– Owners of the Company		<b>336,499</b>	421,026
– Non-controlling interests		<b>(58,705)</b>	(45,540)
		<b>277,794</b>	375,486
Total comprehensive income (expense) attributable to:			
– Owners of the Company		<b>346,368</b>	420,844
– Non-controlling interests		<b>(58,039)</b>	(45,773)
		<b>288,329</b>	375,071
		<b>RMB cents</b>	RMB cents
<b>Earnings per share</b>	10		
– Basic		<b>60.93</b>	79.66
– Diluted		<b>60.84</b>	79.52

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTES	30 June 2020 (Unaudited) RMB' 000	31 December 2019 (Audited) RMB' 000
<b>Non-current assets</b>			
Property, plant and equipment	11	1,909,854	1,918,697
Right-of-use assets	12	467,548	467,250
Investment properties	13	81,476	95,090
Intangible assets	14	712,243	675,737
Interests in associates	15	72,612	54,655
Interests in joint ventures	16	16,496	12,346
Equity instruments at fair value through other comprehensive income		5,841	4,514
Financial assets at fair value through profit or loss	24	266,102	–
Loan receivables		11,888	9,573
Prepayments and deposits	21	55,405	57,829
Deposits made for acquisition of property, plant and equipment		5,676	11,486
Goodwill	17	336,390	313,328
Deferred tax assets		48,172	47,317
		<b>3,989,703</b>	<b>3,667,822</b>
<b>Current assets</b>			
Properties under development	18	485,979	469,070
Properties for sale		20,640	20,640
Inventories	19	476,685	237,478
Loan receivables		23,144	27,354
Trade receivables	20	583,698	689,360
Other receivables, prepayments and deposits	21	347,926	328,369
Contract assets	22	14,288	18,333
Amount due from a related company	23	655	849
Amounts due from associates	23	2,163	2,262
Amounts due from joint ventures	23	901	279
Amount due from a director	23	–	400
Tax recoverable		14,936	6,689
Financial assets at fair value through profit or loss	24	1,596	1,492
Restricted bank balances	25	15,089	15,089
Pledged bank deposits	25	145,799	145,787
Bank deposit with original maturity over three months		35,398	–
Bank balances and cash		3,910,220	2,125,637
		<b>6,079,117</b>	<b>4,089,088</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTES	30 June 2020 (Unaudited) RMB' 000	31 December 2019 (Audited) RMB' 000
<b>Current liabilities</b>			
Trade and other payables	26	1,162,691	980,522
Contract liabilities	22	515,169	529,497
Lease liabilities		59,841	54,603
Provisions		63,906	69,867
Derivative financial instruments	24	81,941	–
Amount due to a related company	27	–	105
Amounts due to associates	27	281	257
Secured bank borrowings	28	191,796	161,135
Dividend payable		128,780	–
Tax payable		90,223	107,120
		<b>2,294,628</b>	<b>1,903,106</b>
<b>Net current assets</b>			
		<b>3,784,489</b>	<b>2,185,982</b>
<b>Total assets less current liabilities</b>			
		<b>7,774,192</b>	<b>5,853,804</b>
<b>Non-current liabilities</b>			
Other payables	26	8,640	16,275
Convertible preferred shares	29	–	–
Convertible and exchangeable bonds	30	1,001,497	–
Secured bank borrowings	28	281,861	246,068
Lease liabilities		116,197	108,803
Deferred tax liabilities		114,153	121,610
		<b>1,522,348</b>	<b>492,756</b>
<b>Net assets</b>			
		<b>6,251,844</b>	<b>5,361,048</b>
<b>Capital and reserves</b>			
Share capital	31	41,163	38,822
Share premium and reserves		6,314,455	5,557,499
Equity attributable to owners of the Company		<b>6,355,618</b>	<b>5,596,321</b>
Non-controlling interests		(103,774)	(235,273)
		<b>6,251,844</b>	<b>5,361,048</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Attributable to owners of the Company														Total equity	
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Property revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Equity instruments at fair value through other comprehensive income reserve	Retained profits	Sub-total		Non-controlling interests
	RMB'000	RMB'000	RMB'000 (Note c)	RMB'000 (Note b)	RMB'000 (Note d)	RMB'000 (Note d)	RMB'000	RMB'000	RMB'000 (Note e)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018 (audited)	38,863	1,568,632	6,595	23,673	10,035	405,767	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	405,767	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	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 (Note b)	-	-	-	(1,811)	-	-	-	-	-	-	-	-	-	(1,811)	449	(1,362)
Disposal of a subsidiary (Note 33)	-	-	-	-	-	(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	5,288,550	(178,983)	5,089,567
At 1 January 2020	38,822	1,565,863	6,652	20,498	10,035	452,203	118,824	22,449	(25,841)	29,033	(101,193)	(7,704)	3,466,680	5,596,321	(235,273)	5,361,048
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	336,499	336,499	(58,705)	277,794
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	8,899	970	-	9,869	666	10,535
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	8,899	970	336,499	346,368	(58,039)	288,329
Issue of new shares	2,318	694,309	-	-	-	-	-	-	-	-	-	-	-	696,627	-	696,627
Shares issued upon exercise of share options	23	2,567	-	-	-	-	-	-	(640)	-	-	-	-	1,950	-	1,950
Recognition of share awards granted by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	53	53
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	18,417	-	-	-	18,417	-	18,417
Awarded shares forfeited	-	-	-	-	-	-	-	-	(3,066)	-	-	-	-	(3,066)	-	(3,066)
Awarded shares vested to employees	-	-	-	-	-	-	-	6,706	(7,580)	-	-	-	874	-	-	-
Contribution from non-controlling interest of a subsidiary	-	-	-	(288)	-	-	-	-	-	-	-	-	-	(288)	2,288	2,000
Acquisition of additional equity interests through conversion of convertible bonds of a subsidiary	-	-	-	(174,421)	-	-	-	-	-	-	-	-	-	(174,421)	174,421	-
Acquisition of a subsidiary (Note 33)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,270	6,270
Acquisition of assets through acquisition of a subsidiary (Note 34)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,506	6,506
Final dividend for 2019 declared	-	-	-	-	-	-	(118,824)	-	-	-	-	-	(7,466)	(126,290)	-	(126,290)
Interim dividend for 2020 proposed	-	-	-	-	-	-	128,780	-	-	-	-	-	(128,780)	-	-	-
Transfer	-	-	-	-	-	(141)	-	-	-	-	-	-	141	-	-	-
At 30 June 2020 (unaudited)	41,163	2,262,739	6,652	(154,211)	10,035	452,062	128,780	22,449	(19,135)	36,164	(92,294)	(6,734)	3,667,948	6,355,618	(103,774)	6,251,844

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

Notes:

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	<b>Six months ended 30 June</b>	
	<b>2020</b> <b>(Unaudited)</b> <b>RMB' 000</b>	2019 (Unaudited) RMB' 000
<b>OPERATING ACTIVITIES</b>		
Profit for the period	<b>277,794</b>	375,486
Adjustments for:		
Taxation	<b>92,728</b>	108,575
Interest income on bank balances, pledged bank deposits, loan receivables and refundable rental deposits	<b>(14,775)</b>	(8,485)
Net gain on convertible preferred shares	–	(13,436)
Net gain on financial assets at fair value through profit or loss	<b>(14,930)</b>	–
Loss on fair value change of investment properties	<b>15,016</b>	–
Amortisation of intangible assets	<b>52,227</b>	45,019
Depreciation of property, plant and equipment	<b>96,420</b>	80,958
Depreciation of right-of-use assets	<b>42,646</b>	39,269
Impairment on goodwill	–	12,534
Impairment on intangible assets	<b>28,165</b>	18,437
Interest expense on secured bank borrowings (included in finance costs)	<b>8,882</b>	7,836
Interest expense on convertible and exchangeable bonds (included in finance costs)	<b>50,630</b>	–
Loss on disposal of a subsidiary	–	58
Others	<b>30,949</b>	14,674
Operating cash flows before movements in working capital	<b>665,752</b>	680,925
Decrease (increase) in trade receivables	<b>91,259</b>	(270,618)
Increase in inventories	<b>(239,838)</b>	(43,801)
Increase in properties under development	<b>(16,909)</b>	(89,277)
Decrease (increase) in other receivables, prepayments and deposits	<b>20,750</b>	(65,192)
Increase in trade and other payables	<b>167,616</b>	98,773
(Decrease) increase in contract liabilities	<b>(14,328)</b>	198,489
(Decrease) increase in provisions	<b>(4,344)</b>	12,517
Others	<b>4,364</b>	7,804
Cash generated from operations	<b>674,322</b>	529,620
Interest paid	<b>(13,594)</b>	(10,939)
Income tax paid	<b>(132,280)</b>	(98,379)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>528,448</b>	420,302

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020 (Unaudited) RMB' 000	2019 (Unaudited) RMB' 000
	NOTES		
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(111,352)	(258,692)
Placement of bank deposit with original maturity over three months		(35,214)	–
Placement of pledged bank deposits		–	(168)
Withdrawal of bank deposit with original maturity over three months		–	67,112
Acquisition of a subsidiary	33	(5,137)	–
Acquisition of assets through acquisition of a subsidiary	34	(43,000)	–
Purchase of intangible assets		(28,421)	(30,836)
Deposits made for acquisition of property, plant and equipment		(2,426)	(1,269)
Investment in an associate		(20,000)	(30,000)
Investment in a joint venture		(6,000)	–
Advance to a joint venture		(622)	(609)
Purchase of financial assets at fair value through profit or loss		(251,320)	–
Repayment from associates		99	–
Repayment from (advance to) a related company		194	(155)
Net cash outflow on disposal of a subsidiary	35	–	(383)
Other investing activities		18,353	(651)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(484,846)</b>	<b>(255,651)</b>
<b>FINANCING ACTIVITIES</b>			
New bank borrowings raised		168,944	77,063
Proceeds from issue of ordinary shares		696,627	–
Proceeds from shares issued upon exercise of share options		1,950	2,175
Proceeds from issue of convertible and exchangeable bonds		982,944	–
Repayment of bank borrowings		(110,288)	(16,976)
Repayment of lease liabilities		(30,619)	(27,948)
Payment for repurchase and cancellation of shares		–	(8,802)
Acquisition of additional equity interests from non-controlling interests		–	(1,362)
Contribution from non-controlling interest of a subsidiary		2,000	980
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>1,711,558</b>	<b>25,130</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,755,160</b>	<b>189,781</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>2,125,637</b>	<b>1,483,352</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>29,423</b>	<b>1,292</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>		<b>3,910,220</b>	<b>1,674,425</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 1. GENERAL

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

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are engaged in (i) online and mobile games development, including games design, programming and graphics and online and mobile games operation, (ii) education business, (iii) mobile solution, products and marketing business and (iv) property project business.

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

### 1A. SIGNIFICANT EVENT IN THE CURRENT INTERIM PERIOD

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group.

The governments of jurisdictions in which Group’s subsidiaries operate have announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic and certain lessors have provided rent concessions to the Group. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in mobile solution, products and marketing revenue, government grants in respect of Covid-19-related subsidies and rent concessions from certain lessors as disclosed in the Notes 4, 8 and 12.

## 2. BASIS OF PREPARATION

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s consolidated financial statements for the year ended 31 December 2019.

### Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 3.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

### 3.2 Impacts and accounting policies on application on Amendments to HKFRS 3 *Definition of a Business*

#### 3.2.1 *Accounting policies*

##### *Business combinations or asset acquisitions*

##### *Optional concentration test*

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

#### 3.2.2 *Transition and summary of effects*

The Group has elected to apply the optional concentration test on the acquisition of 北京網中軟件科技有限公司 (“北京網中”) as detailed in Note 34 and concluded that such acquisition does not constitute a business.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 3.3 Impacts and accounting policies on early application on Amendments to HKFRS 16 *Covid-19-Related Rent Concessions*

#### 3.3.1 *Accounting policies*

##### *Covid-19-related rent concessions*

In respect of rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

#### 3.3.2 *Transition and summary of effects*

The Group has early applied the amendment in the current interim period. The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB205,000 in the profit or loss for the current interim period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### 3.4 Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

##### *Convertible and exchangeable bonds*

The convertible and exchangeable bonds are classified as financial liabilities in accordance with the substance of the contractual arrangements and the definition of a financial liability. A conversion and exchange option that can be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments does not meet the definition of equity and is therefore accounted for as a derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible and exchangeable bonds is carried at amortised cost using the effective interest method. The derivative components are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible and exchangeable bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible and exchangeable bonds using the effective interest method.

##### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### 3.4 Accounting policies newly applied by the Group (Cont'd)

##### *Derivative financial instruments (Cont'd)*

##### *Embedded derivatives*

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss ("FVTPL"). The early redemption option embedded in a host debt contract is closely related to the host contract if the option's redemption price is approximately equal on each redemption date to the amortised cost of the host debt instrument.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

### 4. REVENUE, OTHER INCOME AND GAINS

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB' 000</b>	RMB' 000
<b>Revenue</b>		
Online and mobile games revenue	<b>1,647,334</b>	1,575,849
Education revenue (including sales of education equipment and related goods and educational services)	<b>1,137,941</b>	1,048,529
Mobile solution, products and marketing revenue	<b>37,583</b>	48,169
	<b>2,822,858</b>	2,672,547

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

Disaggregation of revenue

*Types of goods and services*

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

	Six months ended 30 June 2019 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
Revenue from sales of pre-paid game cards for online and mobile games	1,575,849	-	-	-	1,575,849
Sales of education equipment and related goods	-	993,707	-	-	993,707
Revenue from provision of mobile solution, products and marketing services	-	-	48,169	-	48,169
Revenue from educational services	-	54,822	-	-	54,822
	<u>1,575,849</u>	<u>1,048,529</u>	<u>48,169</u>	<u>-</u>	<u>2,672,547</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

Disaggregation of revenue (Cont'd)

*Timing of revenue recognition*

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

Six months ended 30 June 2019 (Unaudited)				
Online and mobile games revenue	Education revenue	Mobile solution, products and marketing revenue	Property project revenue	Total
RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
A point in time	1,575,849	993,707	-	2,569,556
Over time	-	54,822	48,169	102,991
	<u>1,575,849</u>	<u>1,048,529</u>	<u>48,169</u>	<u>2,672,547</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

Disaggregation of revenue (Cont'd)

*Geographical information*

	Six months ended 30 June 2020 (Unaudited)			
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Total RMB'000
PRC	1,451,215	66,074	15	1,517,304
United States of America ("USA")	180,281	533,978	-	714,259
United Kingdom	-	87,317	-	87,317
Germany	-	53,150	-	53,150
Hong Kong	-	184	35,215	35,399
France	-	18,838	-	18,838
Egypt	-	233,043	-	233,043
Australia	-	16,608	-	16,608
Spain	-	10,400	-	10,400
Netherlands	-	11,545	-	11,545
Russia	-	12,618	-	12,618
Vietnam	-	294	-	294
India	-	2,257	-	2,257
Others	15,838	91,635	2,353	109,826
	<u>1,647,334</u>	<u>1,137,941</u>	<u>37,583</u>	<u>2,822,858</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

Disaggregation of revenue (Cont'd)

*Geographical information (Cont'd)*

	Six months ended 30 June 2019 (Unaudited)			Total RMB' 000
	Online and mobile games revenue RMB' 000	Education revenue RMB' 000	Mobile solution, products and marketing revenue RMB' 000	
PRC	1,467,973	86,104	–	1,554,077
USA	94,138	548,377	–	642,515
United Kingdom	–	121,913	–	121,913
Germany	–	58,112	–	58,112
Hong Kong	–	194	45,975	46,169
France	–	36,132	–	36,132
Egypt	–	33,055	–	33,055
Australia	–	23,978	–	23,978
Spain	–	17,491	–	17,491
Netherlands	–	13,345	–	13,345
Russia	–	6,795	–	6,795
Vietnam	–	3,584	–	3,584
India	–	3,418	–	3,418
Others	13,738	96,031	2,194	111,963
	<u>1,575,849</u>	<u>1,048,529</u>	<u>48,169</u>	<u>2,672,547</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB' 000</b>	RMB' 000
<b>Other income and gains</b>		
Government grants (Note)	<b>48,527</b>	34,861
Interest income on bank balances, loan receivables and refundable rental deposits	<b>13,180</b>	6,972
Value-added tax incentives	<b>9,579</b>	–
Net foreign exchange gain	<b>29,756</b>	1,572
Game implementation income	<b>199</b>	413
Rental income, net of negligible outgoing expenses	<b>1,072</b>	7,446
Net gain on disposal of property, plant and equipment	<b>318</b>	–
Server rental income	<b>–</b>	23
Gain arising from early termination of a lease agreement	<b>–</b>	358
Covid-19-related rent concession	<b>205</b>	–
Others	<b>3,071</b>	1,108
	<b>105,907</b>	52,753

Note: Government grants were received from the government of the PRC mainly for subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred, which amount of RMB45,120,000 (six months ended 30 June 2019: RMB31,525,000) during the six months ended 30 June 2020 is recognised in profit or loss and (ii) the purchase of property, plant and equipment, which is deferred and recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure with an amount of RMB3,153,000 (six months ended 30 June 2019: RMB3,336,000).

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 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 2020

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 5. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2019 (restated)

	Online and mobile games RMB'000	Education RMB'000	Mobile solution, products and marketing RMB'000	Property project RMB'000	Total RMB'000
Segment revenue	<u>1,575,849</u>	<u>1,048,529</u>	<u>48,169</u>	<u>–</u>	<u>2,672,547</u>
Segment profit (loss)	<u>1,069,041</u>	<u>(385,703)</u>	<u>(10,483)</u>	<u>(4,919)</u>	667,936
Unallocated other income and gains					8,393
Unallocated expenses and losses					<u>(192,268)</u>
Profit before taxation					<u>484,061</u>

Note: In the prior period, the property project segment did not reach the quantitative thresholds of a reportable segment and no separate disclosure was disclosed. During the six months ended 30 June 2020, the property project segment becomes a reportable segment and therefore the comparative information was restated to separately disclose the segment information to conform with the current period presentation.

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 5. SEGMENT INFORMATION (Cont'd)

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

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Online and mobile games	<b>4,138,770</b>	3,781,763
Education	<b>4,254,237</b>	3,105,351
Mobile solution, products and marketing	<b>127,364</b>	140,875
Property project	<b>618,434</b>	574,593
Total segment assets	<b>9,138,805</b>	7,602,582
Unallocated	<b>930,015</b>	154,328
	<b>10,068,820</b>	7,756,910

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 6. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS (“ECL”) MODEL

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB' 000</b>	RMB' 000
Impairment loss recognised in respect of trade receivables, net of reversal	<b>15,242</b>	<u>81</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019.

During the current interim period, the Group provided an impairment allowance of RMB16,602,000 (six months ended 30 June 2019: RMB89,000), in particular, a specific loss allowance of RMB746,000 (six months ended 30 June 2019: RMB81,000) has been made in respect of some individual debtors as there is evidence indicating the assets are credit-impaired and the recoverability of these balances is low.

During the current interim period, the Group reversed the impairment allowance of RMB1,360,000 (six months ended 30 June 2019: RMB8,000) which was made in respect of some individual debtors.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 7. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB' 000</b>	RMB' 000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current period	<b>22,287</b>	6,436
– Under provision in prior years	<b>–</b>	138
	<b>22,287</b>	6,574
PRC Enterprise Income Tax		
– Current period	<b>87,388</b>	107,764
– Withholding tax	<b>21</b>	24
– Under provision in prior years	<b>2,487</b>	–
	<b>89,896</b>	107,788
Taxation in other jurisdictions		
– Current period	<b>(6,305)</b>	(611)
– Under (over) provision in prior years	<b>115</b>	(191)
	<b>(6,190)</b>	(802)
Deferred tax		
– Current period	<b>(13,265)</b>	(4,985)
	<b>92,728</b>	108,575

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 8. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	<b>17,904</b>	10,813
Other staff costs		
Salaries and other benefits	<b>920,886</b>	803,590
Contributions to retirement benefits schemes (Note)	<b>66,047</b>	73,071
Share-based payments expense	<b>2,989</b>	1,256
Redundancy payments	<b>6,972</b>	9,191
	<b>1,014,798</b>	897,921
Amortisation of intangible assets	<b>52,227</b>	45,019
Depreciation of property, plant and equipment	<b>96,420</b>	80,958
Depreciation of right-of-use assets	<b>42,646</b>	39,269
Total depreciation and amortisation	<b>191,293</b>	165,246
Cost of education equipment sold recognised in cost of revenue	<b>757,299</b>	627,715
Impairment of goodwill	–	12,534
Impairment of intangible assets	<b>28,165</b>	18,437
Covid-19-related rent concessions (Note 12)	<b>(205)</b>	–
Gross rental income from investment properties with negligible outgoing expenses	–	(948)
Net (gain) loss on disposal of property, plant and equipment	<b>(318)</b>	1,665
Loss on fair value change of investment properties	<b>15,016</b>	–
Net foreign exchange gain excluding exchange gain on secured bank borrowings, convertible preferred shares, derivative financial instruments and convertible and exchangeable bonds	<b>(29,756)</b>	(1,572)

Note: During the current interim period, the Group benefited from reduced rates of contribution to retirement benefits of PRC staff as introduced by the PRC government in order to help enterprises overcome the effects of the Covid-19 pandemic, which amounted to RMB14,356,000.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB607,000 (six months ended 30 June 2019: RMB2,090,000) for cash proceeds of RMB925,000 (six months ended 30 June 2019: RMB425,000), resulting in a gain on disposal of RMB318,000 (six months ended 30 June 2019: loss on disposal of RMB1,665,000).

During the six months ended 30 June 2020, the deposits of approximately RMB8,236,000 (six months ended 30 June 2019: RMB6,478,000) were transferred to property, plant and equipment and the Group paid approximately RMB111,352,000 (six months ended 30 June 2019: RMB258,692,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB30,883,000 (six months ended 30 June 2019: RMB39,151,000) in plant and equipment and RMB53,291,000 (six months ended 30 June 2019: RMB211,985,000) in construction in progress.

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

## 12. RIGHT-OF-USE ASSETS

During the current interim period, the Group entered into several new lease agreements ranging from 2 to 5 years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets of RMB42,774,000 (six months ended 30 June 2019: RMB37,274,000) and lease liabilities of RMB42,614,000 (six months ended 30 June 2019: RMB37,274,000).

In addition, the Group early terminated a lease agreement as a lease modification which resulted in a decrease in right-of-use assets of RMB3,730,000 (six months ended 30 June 2020: Nil) during the six months ended 30 June 2019. Accordingly, the Group adjusted lease liabilities of RMB4,088,000 during the six months ended 30 June 2019 (six months ended 30 June 2020: Nil) and recognised a gain of RMB358,000 (six months ended 30 June 2020: Nil) which is included in other income and gains.

During the current interim period, lessors of the relevant offices provided rent concessions to the Group through rent reductions from 50% to 100% over two to three months due to the outbreak of Covid-19.

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 13. INVESTMENT PROPERTIES

The Group's investment properties consist of two units of office premises in Hong Kong and several car parking spaces in the PRC as at 30 June 2020 and 31 December 2019.

### (i) Office premises

The fair values of the office premises as at 30 June 2020 and 31 December 2019 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The fair values of the office premises are determined based on the market approach which uses the prices and other relevant information generated by market transactions involving comparable properties. One of the key inputs used in valuing the investment properties is the sales prices of properties nearby the Group's investment properties which ranged from HKD23,856 (equivalent to RMB21,791) per sq.ft to HKD24,768 (equivalent to RMB22,624) per sq.ft (31 December 2019: ranged from HKD24,768 (equivalent to RMB22,187) per sq.ft to HKD33,000 (equivalent to RMB29,561) per sq. ft), where sq.ft is a common unit of area used in Hong Kong. An increase in the sales prices would result in an increase in fair value measurement of the investment properties, and vice versa. There has been no change in the valuation technique used from the prior period.

### (ii) Car parking spaces

The fair values of these car parking spaces have been arrived at on the basis of a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent qualified professional valuer not connected with the Group. The fair values of these car spaces are determined based on income approach by taking into account the net rental income of the properties in the existing market which have been capitalised to determine the market value. Out of the unobservable inputs used the key ones are the yield of 2.88% (31 December 2019: 2.88%) and average market rent of RMB300 (31 December 2019: RMB300) per month. An increase in the yield and average market rent used would result in an increase in fair value, and vice versa.

During the year ended 31 December 2019, several car parking spaces in the PRC with carrying amount of RMB11,045,000 were transferred from properties for sale. The transfer from properties for sale to investment properties were made since there was a change in use as evidenced by the business plan prepared by the Group that reflected the future rental income generated by the properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The investment properties were categorised into Level 3 of the fair value hierarchy as at 30 June 2020 and 31 December 2019. The resulting decrease in fair value of investment properties of RMB15,016,000 (six months ended 30 June 2019: Nil) has been recognised directly in profit or loss for the six months ended 30 June 2020.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 14. INTANGIBLE ASSETS

During the current interim period, the Group paid approximately RMB28,421,000 (six months ended 30 June 2019: RMB30,836,000) for the acquisition of intangible assets to expand its operations. In addition, an amount of RMB83,154,000 of intangible asset (six months ended 30 June 2019: Nil) was acquired upon the acquisition of a subsidiary and the acquisition of assets through acquisition of a subsidiary during the current interim period.

#### Impairment assessment

As a result of the changes in the current economic environment related to the Covid-19 pandemic, certain subsidiaries in education segment are experiencing negative conditions including decreased revenues in certain cash-generating units that indicate that the relevant intangible assets may be impaired. During the current interim period, the Group performed impairment testing and recognised impairment loss of RMB28,165,000 related to intangible assets.

### 15. INTERESTS IN ASSOCIATES

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Unlisted investments:		
Cost of investments	<b>93,992</b>	73,992
Share of post-acquisition losses	<b>(21,380)</b>	(19,337)
Group's share of net assets of associates	<b><u>72,612</u></b>	<u>54,655</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 15. INTERESTS IN ASSOCIATES (Cont'd)

As at 30 June 2020 and 31 December 2019, the Group had interests in the following associates:

Name of entities	Proportion of ownership interest and voting rights held by the Group		Country of establishment/ operation	Registered capital	Principal activities
	30 June 2020	31 December 2019			
101 Education Technology Co. Ltd. ("101 Cayman") (Note a)	49.0%	49.0%	Cayman Islands	US dollar ("USD")8,000,000	Investment holding
101 Education Technology Co. Ltd. ("101 BVI") (Note a)	49.0%	49.0%	British Virgin Islands	USD8,000,000	Investment holding
101 Education Technology (Hong Kong) Co. Ltd. ("101 HK") (Note a)	49.0%	49.0%	Hong Kong	USD8,000,000	Provision of online education and related application business
福建創思教育科技有限公司 ("福建創思教育") (Note a)	49.0%	49.0%	PRC	USD8,000,000	Provision of online education and related application business
福建一零一教育科技有限公司 ("福建一零一教育") (Note a)	49.0%	49.0%	PRC	RMB10,000,000	Provision of online education and related application business
安徽學雲教育科技有限公司 ("安徽學雲教育") (Note b)	20.93%	20.93%	PRC	RMB10,117,700	Provision of online education and related application business
長沙憶不容辭教育科技有限公司 ("長沙憶不容辭") (Note c)	20.0%	20.0%	PRC	RMB2,000,000	Provision of online education and related application business
雲啟智慧科技有限公司 ("雲啟智慧") (Note d)	40.0%	N/A	PRC	RMB50,000,000	Provision of smart education

Notes:

- The Group holds 49% of the issued share capital of 101 Cayman, 101 BVI, 101 HK and 福建創思教育 (collectively referred to as "101 Education Group") and 福建一零一教育, and has the power to appoint three directors out of seven directors in their board. Therefore, 101 Education Group and 福建一零一教育 are classified as associates of the Group as at 30 June 2020 and 31 December 2019.
- The Group holds 20.93% of the registered capital of 安徽學雲教育, and has the power to appoint one director out of three directors in the board. Therefore, 安徽學雲教育 is classified as an associate of the Group as at 30 June 2020 and 31 December 2019.
- The Group holds 20% of the registered capital of 長沙憶不容辭, and has the power to appoint one director out of five directors in the board. Therefore, 長沙憶不容辭 is classified as an associate of the Group as at 30 June 2020 and 31 December 2019.
- The Group holds 40% of the registered capital of 雲啟智慧, and has the power to appoint two directors out of five directors in the board. Therefore, 雲啟智慧 is classified as an associate of the Group as at 30 June 2020.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 16. INTERESTS IN JOINT VENTURES

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Unlisted investment:		
Cost of investment	<b>24,000</b>	18,000
Share of post-acquisition losses	<b>(7,504)</b>	(5,654)
Group's share of net assets of joint ventures	<b>16,496</b>	12,346

Name of entities	Proportion of ownership interest and voting rights held by the Group		Country of establishment/ operation	Registered capital	Principal activities
	30 June 2020	31 December 2019			
福建省國騰信息科技有限公司 ("國騰") (Note a)	<b>60.0%</b>	60.0%	PRC	RMB1,000,000,000	Application of information technologies, virtual reality and augmented reality technology
昆明網龍華漁科技發展有限公司 ("昆明網龍華漁") (Note b)	<b>60.0%</b>	N/A	PRC	RMB50,000,000	Provision of training and software-as-a-service

Notes:

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 17. IMPAIRMENT TESTING ON GOODWILL

During the six months ended 30 June 2019, the cash-generating unit 4 (the “CGU-4”) of education business, as described in consolidated financial statements of the Group for the year ended 31 December 2019, incurred losses in the prior period, and its recoverable amount was assessed to be less than the carrying amount. The directors of the Company have consequently determined impairment of goodwill directly related to the CGU-4 amounting to RMB12,534,000 included in “other expenses and losses”. No other write-down of the assets of the CGU-4 unit is considered necessary. Management of the Group determines that there is no impairment of the other CGUs containing goodwill or trademarks with indefinite useful lives.

### 18. PROPERTIES UNDER DEVELOPMENT

The Group’s properties under development are situated in the PRC. All of the properties under development are stated at the lower of cost and net realisable value. As at 30 June 2020 and 31 December 2019, the properties under development are expected to be realised within twelve months from the end of the reporting period.

### 19. INVENTORIES

	<b>30 June 2020 (Unaudited) RMB’ 000</b>	31 December 2019 (Audited) RMB’ 000
Raw materials	<b>5,559</b>	6,789
Work in progress	–	71
Finished goods	<b>471,126</b>	230,618
	<b>476,685</b>	237,478

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 20. 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 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Trade debtors		
0 – 30 days	<b>381,342</b>	505,653
31 – 60 days	<b>76,550</b>	52,617
61 – 90 days	<b>20,515</b>	23,083
Over 90 days	<b>100,530</b>	101,731
Receivables aged over 90 days with extended credit terms		
Due within one year	<b>4,761</b>	6,276
	<b><u>583,698</u></b>	<u>689,360</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 21. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Prepayments to suppliers	<b>92,001</b>	100,306
Prepayments for rented premises, utilities and server	<b>61,881</b>	88,534
Prepayment for convertible and exchangeable bonds interest	<b>36,658</b>	–
Refundable rental and guarantee deposits	<b>84,108</b>	85,482
Interest receivables	<b>2,158</b>	3,836
Other tax recoverable	<b>85,480</b>	79,623
Others	<b>41,045</b>	28,417
	<b><u>403,331</u></b>	<u>386,198</u>
Analysed for financial reporting purpose:		
Current	<b>347,926</b>	328,369
Non-current	<b>55,405</b>	57,829
	<b><u>403,331</u></b>	<u>386,198</u>

Included in prepayments for rented premises, utilities and server and refundable rental and guarantee deposits, there are balances of:

- (i) RMB31,662,000 (31 December 2019: RMB31,621,000) which represents refundable rental deposit for lease contracts paid to a related company 福州楊振華851生物工程技術研究開發有限公司 (Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.) ("Fuzhou 851") as at 30 June 2020.
- (ii) RMB25,000,000 (31 December 2019: RMB25,000,000) which represents deposit for technical support service paid to 福州天亮網絡技術有限公司 (Fuzhou Tianliang Network Technology Co., Limited) ("Fuzhou Tianliang") as at 30 June 2020.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 22. CONTRACT ASSETS/LIABILITIES

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
<b>Contract assets:</b>		
Mobile solution, products and marketing services	<b>8,526</b>	13,352
Education equipment and related goods	<b>5,762</b>	4,981
	<b>14,288</b>	18,333
<b>Contract liabilities:</b>		
Online and mobile games	<b>48,020</b>	42,532
Education equipment and related goods	<b>172,867</b>	196,324
Mobile solution, products and marketing services	<b>1,997</b>	267
Educational services	<b>8,406</b>	22,039
Property project	<b>283,879</b>	268,335
	<b>515,169</b>	529,497

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

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 23. AMOUNT(S) DUE FROM A RELATED COMPANY/ASSOCIATES/JOINT VENTURES/A DIRECTOR

As at 30 June 2020 and 31 December 2019, the amount due from a related company and amounts due from associates are not trade in nature, unsecured, non-interest bearing and repayable on demand.

As at 30 June 2020 and 31 December 2019, the amounts due from joint ventures and amount due from a director are not trade in nature, unsecured, non-interest bearing and repayable on demand. The amount due from a director was repaid during the six months ended 30 June 2020.

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

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Financial assets designated at FVTPL:		
– Equity-linked warrants	<b>1,596</b>	1,492
– Unlisted funds (Note i)	<b>266,102</b>	–
	<b>267,698</b>	1,492
Analysed for financial reporting purpose:		
Current	<b>1,596</b>	1,492
Non-current	<b>266,102</b>	–
	<b>267,698</b>	1,492
Derivative financial instruments:		
– Unlisted warrants (Note ii)	<b>81,941</b>	–

Notes:

- (i) The unlisted funds represent a portfolio of investments managed by fund managers, most of the portfolio assets are invested in the listed securities in Hong Kong and the PRC. These investments are not held for trading, instead, they are held for long-term purposes. The Group is not expected to realise the funds within twelve months from the end of the reporting period, therefore the unlisted funds are classified as non-current assets.
- (ii) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 30.

### 25. RESTRICTED BANK BALANCES/PLEDGED BANK DEPOSITS

As at 30 June 2020 and 31 December 2019, restricted bank balances represent bank balances for guarantee completion of constructions and pledged bank deposits represent bank deposits to secure a bank borrowing granted to the Group and to obtain credit card facility.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 26. TRADE AND OTHER PAYABLES

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Trade payables	<b>538,043</b>	269,627
Accrued staff costs	<b>188,183</b>	277,804
Government grants (Note a)	<b>27,603</b>	43,634
Receipt in advance	<b>156</b>	387
Other tax payables	<b>22,499</b>	37,310
Advertising payables	<b>49,937</b>	58,244
Payables for purchase of property, plant and equipment	<b>76,267</b>	107,674
Consultancy fee payables	<b>7,079</b>	8,643
Refundable rental deposits	<b>-</b>	419
Consideration payables (Note b)	<b>30,069</b>	8,800
Payables for purchase of intangible assets	<b>18,440</b>	15,890
Accrued expenses (Note c)	<b>173,887</b>	101,451
Other payables (Note d)	<b>39,168</b>	66,914
	<b><u>1,171,331</u></b>	<u>996,797</u>
Analysed for financial reporting purpose:		
Current	<b>1,162,691</b>	980,522
Non-current	<b>8,640</b>	16,275
	<b><u>1,171,331</u></b>	<u>996,797</u>

Notes:

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 26. TRADE AND OTHER PAYABLES (Cont'd)

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

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
0 – 90 days	<b>412,472</b>	213,218
91 – 180 days	<b>72,203</b>	31,801
181 – 365 days	<b>37,448</b>	14,999
Over 365 days	<b>15,920</b>	9,609
	<b>538,043</b>	269,627

### 27. AMOUNT(S) DUE TO A RELATED COMPANY/ASSOCIATES

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

### 28. SECURED BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB168,944,000 (six months ended 30 June 2019: RMB77,063,000). The secured bank borrowings as at 30 June 2020 carry interest at (i) higher of twelve-month London Inter-Bank Offer Rate ("LIBOR") plus 0.50% or 3.40% per annum, (ii) one-month Hong Kong Inter-Bank Offer Rate ("HIBOR") plus 2.20% or 2.35% per annum, (iii) benchmark interest rate of three-year borrowings of the People's Bank of China (the "PBOC") plus 2.11% to 7.37% per annum, (iv) benchmark interest rate of five-year borrowings of the PBOC plus 0.1% per annum or (v) interest rate of 1.00% or 4.94% or 6.00% per annum, and are repayable from 2020 to 2034. The borrowings were secured by a pledged bank deposit as mentioned in Note 25, a pledge of property of a subsidiary, leasehold lands included in right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by the Company's subsidiaries.

The secured bank borrowings as at 31 December 2019 carry interest at (i) one-month HIBOR plus 2.20% to 2.90% per annum, (ii) higher of twelve-month LIBOR plus 0.50% or 3.40% per annum, (iii) benchmark interest rate of three-year borrowings of the PBOC plus 2.11% to 7.37% per annum, (iv) benchmark interest rate of five-year borrowings of the PBOC plus 6.12% per annum or (v) interest rate of 4.94% or 6.00% per annum, and are repayable from 2020 to 2023. The borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, leasehold lands included in right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by the Company's subsidiaries.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 29. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, Best Assistant Education Online Limited ("Best Assistant"), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 11.9% 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.. 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 29. CONVERTIBLE PREFERRED SHARES (Cont'd)

### Liquidation

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

The 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 USD0.001 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 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
At the beginning of the period/year	–	108,904
Fair value changes	–	(110,697)
Exchange adjustments	–	1,793
At the end of the period/year	<u>–</u>	<u>–</u>

During the year ended 31 December 2019, there was a decrease in fair value on convertible preferred shares of RMB110,697,000 as Best Assistant and its subsidiaries had been loss-making resulting in a decrease in the present value of the expected future economic benefits to be derived.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 30. CONVERTIBLE AND EXCHANGEABLE BONDS

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

### Conversion and exchange option

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

### Warrants

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 30. CONVERTIBLE AND EXCHANGEABLE BONDS (Cont'd)

### Redemption

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

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

	<b>Debt host component (Unaudited) RMB' 000</b>
Issue of convertible and exchangeable bonds, net of transaction costs	<b>948,093</b>
Exchange adjustments	<b>19,212</b>
Interest accrued	<b>50,630</b>
Settlement of interest	<b>(16,438)</b>
As at 30 June 2020	<b><u>1,001,497</u></b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 31. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
<b>Authorised:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2019, 30 June 2019, 31 December 2019, and 30 June 2020	<b>1,000,000,000</b>	<b>10,000,000</b>	<b>75,771</b>
<b>Issued and fully paid:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2019	531,146,216	5,311,462	38,863
Shares issued upon exercise of share options (Note ii)	134,100	1,341	9
Repurchase and cancellation of shares (Note ii)	(784,000)	(7,840)	(57)
At 30 June 2019	530,496,316	5,304,963	38,815
Shares issued upon exercise of share options	98,500	985	7
At 31 December 2019	<b>530,594,816</b>	<b>5,305,948</b>	<b>38,822</b>
Shares issued upon exercise of share options (Note i)	<b>338,200</b>	<b>3,382</b>	<b>23</b>
Issue of new shares (Note i)	<b>33,000,000</b>	<b>330,000</b>	<b>2,318</b>
At 30 June 2020	<b>563,933,016</b>	<b>5,639,330</b>	<b>41,163</b>

Notes:

- (i) During the six months ended 30 June 2020, 338,200 share options were exercised and as a result of 338,200 ordinary shares were issued. Approximately RMB23,000 and RMB2,567,000 were recorded as share capital and share premium, respectively. 33,000,000 ordinary shares were issued to DJM which is wholly-owned by a controlling shareholder of the Company, Mr. Liu Dejian. Approximately RMB2,318,000 and RMB694,309,000 were recorded as share capital and share premium, respectively.
- (ii) During the six months ended 30 June 2019, 134,100 share options were exercised and as a result of 134,100 ordinary shares were issued. Approximately RMB9,000 and RMB3,166,000 were recorded as share capital and share premium, respectively. The Company repurchased 784,000 of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was RMB8,802,000.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 32. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

In current interim period, options were granted on 24 January 2020. Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Outstanding at 24 January 2020 and 30 June 2020
24 January 2020	24 January 2020 - 23 January 2021	24 January 2021 - 23 January 2030	1,599,000
24 January 2020	24 January 2020 - 23 January 2022	24 January 2022 - 23 January 2030	1,599,000
24 January 2020	24 January 2020 - 23 January 2023	24 January 2023 - 23 January 2030	1,602,000
24 January 2020	24 January 2020 - 23 January 2024	24 January 2024 - 23 January 2030	1,500,000
			<b>6,300,000</b>

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

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

	<b>Number of share options</b>
Outstanding as at 1 January 2020	<b>2,457,084</b>
Granted during the period	<b>6,300,000</b>
Exercised during the period	<b>(338,200)</b>
Outstanding as at 30 June 2020	<b>8,418,884</b>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD20.70. The Group recognised the total expenses of RMB12,948,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB495,000) in relation to share options granted by the Company.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme by the Company

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

The Group recognised the total expenses of RMB2,403,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB6,465,000) in relation to the Award.

Movements in the share awards granted during the six months ended 30 June 2020 and the year ended 31 December 2019 are as follows:

#### Six months ended 30 June 2020

Name of category of participant	Date of grant	Outstanding	Granted	Awards	Forfeited	Outstanding
		at 1 January 2020		vested during period		at 30 June 2020
Other employees	19 April 2018	676,800	-	(127,430)	(209,050)	340,320
Director	19 April 2018	654,480	-	(190,890)	(27,270)	436,320
Director	13 January 2020	-	120,000	(120,000)	-	-
		<u>1,331,280</u>	<u>120,000</u>	<u>(438,320)</u>	<u>(236,320)</u>	<u>776,640</u>

Year ended 31 December 2019

Name of category of participant	Date of grant	Outstanding	Granted	Awards	Forfeited	Outstanding
		at 1 January 2019		vested during year		at 31 December 2019
Other employees	19 April 2018	1,106,880	-	(188,260)	(241,820)	676,800
Director	19 April 2018	872,640	-	(199,980)	(18,180)	654,480
Director	23 April 2019	-	120,000	(120,000)	-	-
		<u>1,979,520</u>	<u>120,000</u>	<u>(508,240)</u>	<u>(260,000)</u>	<u>1,331,280</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

Among the Award granted on 19 April 2018, 318,320 share awards were vested during the six months ended 30 June 2020 (for the year ended 31 December 2019: 388,240 share awards). 388,320 and 388,320 share awards will be vested on 30 April 2021 and 30 April 2022, respectively. 236,320 share awards were forfeited during the six months ended 30 June 2020.

Among the Award granted on 23 April 2019, 120,000 share awards were granted and vested during the six months ended 30 June 2019.

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

#### (iii) Share awarded by a subsidiary of the Company

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 32. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

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

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.

Best Assistant has granted 80,000 share awards to a selected participant, 16,000, 24,000 and 40,000 share awards were vested and released on 1 July 2017, 1 July 2018 and 1 July 2019, respectively.

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

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

The Group recognised the total expenses of approximately RMB53,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB61,000) in relation to the share awards.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 33. ACQUISITION OF A SUBSIDIARY

Acquisition of 成都掌沃無限科技有限公司 (“成都掌沃”)

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

#### *Consideration transferred*

Consideration paid

Other payable

Total

**RMB'000**

**11,531**

**14,269**

**25,800**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2020

**33. ACQUISITION OF A SUBSIDIARY (Cont'd)**

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

Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis) are as follows:

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 33. ACQUISITION OF A SUBSIDIARY (Cont'd)

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

### *Non-controlling interests*

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

### *Goodwill arising on acquisition of 成都掌沃 (determined on provisional basis)*

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

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

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

### *Net cash outflow on acquisition of 成都掌沃*

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 33. ACQUISITION OF A SUBSIDIARY (Cont'd)

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

### *Impact of acquisition on the results of the Group*

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

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

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

## 34. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

Acquisition of assets through acquisition of 北京網中

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

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

### *Consideration transferred*

Consideration paid
Other payable
Total

RMB' 000

43,000

7,000

50,000

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

Acquisition of assets through acquisition of 北京網中 (Cont'd)

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

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

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

*Cash outflow arising in the acquisition of 北京網中*

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2020

**35. DISPOSAL OF A SUBSIDIARY**

During the six months period ended 30 June 2019, the Group entered into a sale agreement to dispose of its entire equity interest in 北京企航互動網絡科技有限公司(“北京企航”) to a director of the Company with consideration of RMB400,000. The purpose of the disposal is to concentrate on the Group’s other businesses. The disposal was completed on 20 April 2019, and the Group lost control of 北京企航 on the same date.

	RMB' 000
<b>Consideration receivable</b>	<u>400</u>
<b>Analysis of assets and liabilities over which control was lost</b>	
Property, plant and equipment	57
Other receivables	23
Amount due from a fellow subsidiary	7
Bank balances and cash	383
Amount due to a fellow subsidiary	(9)
Amount due to an immediate holding company	<u>(3)</u>
Net assets disposed of	<u>458</u>
<b>Loss on disposal of a subsidiary</b>	
Amount due from a director	400
Net assets disposed of	<u>(458)</u>
Loss on disposal	<u>(58)</u>
<b>Cash outflow arising on disposal</b>	
Bank balances and cash disposed of	<u>(383)</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 36. RELATED PARTY TRANSACTIONS

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

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

Name of related parties	Relationship
Fuzhou 851	DJM, the immediate holding company of the Company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, has 100% equity interest in this entity.
Fuzhou Tianliang	Fuzhou Tianliang was an entity wholly owned by Ms. Lin Hang, acting under the instruction of the Ultimate Controlling Shareholders of the Company until 5 July 2019.
福建創思教育	福建創思教育 is an associate of the Group which the Group holds 49% of the issued share capital in this entity.
國騰	國騰 is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.
北京企航	北京企航 is an entity wholly owned by Mr. Zheng Hui, the executive director of the Company.

Nature of transactions	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Technical services fee paid to 北京企航	131	–
Goods purchased from 福建創思教育	21	450
Goods sold to 北京企航	–	(2)
After-sales service fee paid to Fuzhou Tianliang	–	4,595
Technical service fee paid to Fuzhou Tianliang	–	985
Goods sold to 國騰	(79)	(167)
Interest income on loan advanced to key management	(198)	(219)

Included in loan receivables as at 30 June 2020 was loan advanced to key management of approximately RMB8,194,000 (31 December 2019: RMB8,707,000), and the amounts are unsecured, repayable on monthly instalment, or repayable in whole on 14 January 2021, 30 April 2022 and 31 August 2022 (31 December 2019: repayable in whole on 14 January 2020, 30 April 2022 and 31 August 2022) and carry interest rate of 4.15% to 5.0% (31 December 2019: 4.75% to 5.125%) per annum.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

## 36. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

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

	Six months ended 30 June	
	2020 (Unaudited) RMB' 000	2019 (Unaudited) RMB' 000
Salaries, allowances and other short-term employee benefits	22,392	20,202
Contribution to retirement benefits schemes	235	317
Share-based payments expense	14,067	7,764
	<b>36,694</b>	<b>28,283</b>

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

## 37. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000				
Equity instrument at FVTOCI	5,841	4,514	Level 1	Quoted bid prices in an active market.	N/A	N/A
Financial assets at FVTPL – Equity-linked warrants	1,596	1,492	Level 3	Valuation of financial assets at FVTPL: Binomial valuation model using key input: expected volatility.	Volatility 159.15% (31 December 2019: 150.14%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Financial assets at FVTPL – Unlisted funds	266,102	N/A	Level 2	Price provided by the financial institution with reference to underlying investment portfolios which have observable quoted price in active markets.	N/A	N/A
Derivative financial instruments – Conversion and exchange option	-	N/A	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 55.33% is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Derivative financial instruments – Unlisted warrants	81,941	N/A	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 47.42% is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Convertible preferred shares	-	-	Level 3	Valuation of the principal cash flow: Income approach - In this approach, discount cash flow method was used to capture the present value of the expected future economic benefits to be derived.	Discount rate that reflected the expected rate of return ranging from 15.45% to 24.76% (31 December 2019: 14.25% to 22.61%).	The higher the discount rate, the lower the fair value.

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

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

#### *Reconciliation of Level 3 fair value measurements*

#### *Reconciliation of Level 3 fair value measurements of financial assets*

	<b>Unlisted financial assets at FVTPL RMB' 000</b>
At 1 January 2020	1,492
Fair value changes	147
Exchange adjustments	(43)
At 30 June 2020	<u>1,596</u>

#### *Reconciliation of Level 3 fair value measurements of financial liabilities*

	<b>Derivative financial instruments RMB' 000</b>	<b>Convertible preferred shares RMB' 000</b>
At 1 January 2019	–	108,904
Fair value changes	–	(13,436)
Exchange adjustments	–	183
At 30 June 2019	–	<u>95,651</u>
At 1 January 2020	–	–
Issue of unlisted warrants	<b>86,795</b>	–
Fair value changes	<b>(6,971)</b>	–
Exchange adjustments	<b>2,117</b>	–
At 30 June 2020	<u><b>81,941</b></u>	<u>–</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

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

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

Of the total gains or losses for the period included in profit or loss, RMB147,000, RMB6,971,000 and nil relates to unlisted financial assets at FVTPL held, derivative financial instruments and convertible preferred shares issued at the end of the current reporting period respectively. Fair value gain on unlisted financial assets at FVTPL are included in 'net gain on financial assets at fair value through profit or loss'. Fair value gain on derivative financial instruments are included in 'fair value gain on derivative financial instruments'. Fair value gain on convertible preferred shares are included in 'net gain on convertible preferred shares'.

#### *Fair value measurements and valuation process*

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

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

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

### 38. CAPITAL COMMITMENTS

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

	<b>30 June 2020 (Unaudited) RMB' 000</b>	31 December 2019 (Audited) RMB' 000
Capital expenditure in respect of the capital injection in joint ventures	<b>606,000</b>	582,000
Capital expenditure in respect of the acquisition of equity interests in a company	–	50,000
Capital expenditure in respect of the acquisition of property, plant and equipment	<b>318,423</b>	371,681
Capital expenditure in respect of properties under development	<b>126,082</b>	124,880
	<b><u>1,050,505</u></b>	<u>1,128,561</u>