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NetDragon

NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

BUSINESS REVIEW AND OUTLOOK

The year of 2020 marked the 10th consecutive year of revenue growth for NetDragon Websoft Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) as the Group continue to focus on growing business and strengthening the core competencies during the Covid-19 pandemic. The pandemic has brought on both unprecedented opportunities and challenges. The Group has seen accelerating adoption of technology in the education space, a trend which is widely believed to continue in the post-Covid-19 world. Thanks to years of research and development effort, one-stop blended learning solutions have enabled the Group to capitalize on a new market opportunity to address the holistic edtech needs of countries around the world. The Group believes 2020 is a year of validation of country model, as the Group succeeded in commencing the first country-wide rollout in Egypt, as well as expanding the model into a growing list of countries such as Ghana, Thailand and Malaysia. The Group’s flagship classroom technology subsidiary Promethean, also saw strong momentum in the second half of 2020 and continued to maintain its global market leadership position, being number one in market share in eight of the top ten countries by revenue contribution.

In China, the Group continued to focus on broadening user coverage and driving user engagement across multiple product categories in order to prepare ourselves to scale future monetization. With monthly teachers’ active installed base of over 1.5 million in December 2020, 101 Education PPT has become one of the most popular lesson preparation and delivery platforms in China, providing the Group with a solid foundation to roll out paid value-added services, such as live broadcast service which the Group started to pilot in the second half of 2020. Meanwhile, One-Stop Learning platform expanded to G penetration to nine provinces during the year, including the provinces of Hubei, Henan and Shaanxi where the Group is selected as their respective Ministry of Education’s official provincial education platforms.

The Group is also excited about the achievements in gaming business in 2020, as the Group continued to grow revenue by investing its efforts in development of new titles, expanding the contents in existing titles, as well as strengthening the go-to-market capabilities. During the year, the Group ramped up content updates for Eudemons Online (魔域) IP and launched 7 expansion packs, leading to significant increase in user activities and engagement. The flagship game Eudemons Online (魔域) saw its MAU and DAU increased 49% and 46%, respectively year-over-year, providing a solid foundation for sustained, long-term growth of the game and the overall Eudemons Online (魔域) IP. The Group is also pleased with the progress it has made in developing a brand new next generation 3D Eudemons Online (魔域) game, which will take the gamers' experience to a whole new level. Last but not least, as the economy continued to recover from the pandemic, the Group saw an 8.4% increase in the gaming revenue in the second half of 2020 compared to the first half of 2020, and the Group expects this momentum to continue into 2021 as the Group maintains its strategy to maximize IP value with a series of new games to be launched in the new year.

Gaming Business

Gaming business revenue increased by 4.0% year-over-year to RMB3,432.7 million in 2020. While Covid-19 resulted in a slow down in spending grow of high-paying user segment in the first half of 2020 due to the pandemic, the gaming revenue regained growth momentum in the second half of 2020 with an 8.4% increase half-over-half as the economy continued to recover. Despite the challenges brought by the pandemic, overseas markets demonstrated a strong performance with significant year-over-year increase in revenue, representing 13.7% of total gaming revenue in 2020.

Eudemons Online (魔域), the Group's flagship IP, recorded solid revenue growth in 2020, driven primarily by the significant increase in active users. The Group forged ahead in efforts to grow a larger active user base, drive higher user engagement and build stronger IP recognition, which all served to drive the future growth. During the year, the Group took a more aggressive approach to enhance gamers' loyalty by launching 7 new expansion packs and a new Eudemons Online (魔域) IP game. As a result, the MAU and DAU of Eudemons Online (魔域) IP surged 22% and 37% in 2020 respectively.

The focus of Heroes Evolved (英魂之刃) during the year continued to be on expanding and optimizing its user base. Through effective marketing and promotion campaigns including collaboration with two well-known anime, OVERLORD and That Time I Got Reincarnated as a Slime (關於我轉生成為史萊姆這檔事), Heroes Evolved (英魂之刃) expanded its gamer base to ACGN (Animation, Comic, Game and Novel) field, forming a strong high paying user base foundation for future monetization. During the year, Heroes Evolved Pocket Version (英魂之刃口袋版) was also recommended by App Store and hit the iOS Top 10 free gaming app chart for the first time. Meanwhile, the other major IP Conquer Online (征服) recorded revenue growth of 6.3% in 2020, as a result of robust content and user experience enhancement with multiple expansion packs launched during the year.

Looking forward, the Group expects to drive revenue and profit growth on multiple fronts, including maximizing IP values through launching new games entering into and new genres, as well as expanding IP portfolio and IP collaboration. The Group's pipeline is robust with multiple new games ready to be launched in 2021. The Group expects to launch two Eudemons (魔域) IP games, namely Eudemons Mobile II (魔域手遊II) and Legends of Eudemons (魔域傳說), as well as Neopets Match 3 (Neopets 三消) and Neopets Island Builders under the Neopets IP during this year. In terms of new IP, the first ACGN-style mobile game Under Oath (終焉誓約) is also scheduled to be launched in collaboration with Bilibili in the third quarter of 2021.

Education Business

In 2020, education business recorded revenue of RMB2,443.9 million, up 2.0% year-over-year. The outbreak of Covid-19 has brought challenges but also opportunities, as blended learning model has become a necessity and the Group saw its adoption continuing to accelerate during the year. The Group has successfully capitalized on this opportunity with its unique blended learning solution, and have been engaging in active discussions with multiple countries in the pipeline.

In August 2020, the Group signed a 5-year MOU with Ministry of Education of Egypt (Egypt MOE) and commenced the implementation to deliver a country-wide blended learning solution that integrates Promethean, Edmodo and several other flagship product offerings. In addition, the Group was in close discussion during the year with education authorities in Thailand, Ghana, Malaysia and several other countries. The Group expects the country rollout to be executed with a multi-pronged revenue model, including sale of hardware, realizing software revenue in the form of SaaS, subscription or licensing, as well as long-tail revenue in the form of contents and services.

The Group's classroom technology subsidiary Promethean continued to maintain its market leadership position during the year with its unique product value proposition, a well-established and growing channel of distributors and partners, as well as a high level of brand equity globally. Shipment of Promethean Interactive Flat Panel recorded 16.4% year-over-year increase in 2020, as the Group successfully transitioned into a virtual sales and marketing model in view of the pandemic. The Group also saw significant revenue momentum in the second half of 2020 as Promethean's revenue grew by 8.0% half-over-half compared to the first half of 2020. Furthermore, the Group continued to enhance Promethean's operating efficiency as the Group achieved reduction in all of the major core direct cost items including freight, warranty and warehousing costs, leading to gross margin increase from 30.1% in 2019 to 33.6% in 2020.

In China, the Group continued to execute the strategy to broaden user coverage and drive user engagement in order to build a strong foundation to scale monetization. With monthly teachers' active installed base of over 1.5 million in December 2020, 101 Education PPT has become one of the most popular lesson preparation and delivery platforms in China, and the Group has started to pilot monetization approaches such as live broadcast service. The other flagship product, the One-Stop Learning platform, recorded tenfold surge in average MAU to 2 million compared to 2019, and expanded its penetration to nine provinces during the year, including the provinces of Hubei, Henan and Shaanxi, where the Group are selected as their official provincial education platforms. The Group believes the broad coverage of provinces will enable the Group to move toward the scaling of monetization, as education authorities are increasingly embracing the use of technologies in learning and teaching as part of the macro trend. Another major milestone achieved during the year is the Group's successful pilot carried out for Virtual Lab platform across 6 provinces in partnership with the National Center for Educational Technology ("NCET"), a unit directly affiliated to China's Ministry of Education. The virtual experimental teaching platform was well received by the participating teachers and students, and the Group expect to roll out the solution across the country to start generating SaaS revenue in 2021.

With the unique blended learning solutions, the Group is well positioned to elevate teaching and learning experience and capture market opportunities globally in a world of ever-increasing demand for education technology. The Group is optimistic about the growth trajectory in 2021 as the Group continues to capitalize on the market leadership position, broad market coverage and ability to execute country-level rollouts.

Fiscal Year 2020 Financial Highlights

- Revenue was RMB6,137.6 million, representing a 5.9% increase year-over-year.
- Revenue from the games business was RMB3,432.7 million, representing 55.9% of the Group's total revenue and registering a 4.0% increase year-over-year.
- Revenue from the education business was RMB2,443.9 million, representing 39.8% of the Group's total revenue and registering a 2.0% increase year-over-year.
- Gross profit was RMB4,171.3 million, representing an 8.2% increase year-over-year.
- Core segmental profit¹ from the games business was RMB1,963.5 million, representing a 2.1% increase year-over-year.
- Core segmental loss¹ from the education business was RMB585.5 million, representing an 11.6% increase year-over-year.
- Cash inflow from operating activities was RMB1,329.7 million, representing a 13.1% increase year-over-year.
- EBITDA was RMB1,621.5 million, representing a 30.2% increase year-over-year.
- Non-GAAP operating profit² was RMB1,314.8 million, representing a 24.0% increase year-over-year.
- Profit attributable to owners of the Company was RMB953.5 million, representing an 18.1% increase year-over-year.
- Non-GAAP profit attributable to owners of the Company² was RMB1,142.3 million, representing a 19.6% increase year-over-year.
- The Company declared a final dividend of HKD0.25 per ordinary share (2019: HKD0.25 per ordinary share), subject to approval at the coming annual general meeting. Total dividends for the year amounted to HKD0.50 per ordinary share (2019: HKD0.40 per ordinary share), representing approximately 25.9% of the total profit attributable to the owners for the year. During the year, the Group repurchased over 7.5 million ordinary shares, which accounts for 1.3% of issued shares as of 31 December 2020, for a total consideration of approximately HKD128.0 million. The total dividends plus share buy-backs for the year accounted for 37.3% of the profit attributable to the owners for the year.

Segmental Financial Highlights

(RMB' 000)	FY2020		FY2019		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	3,432,666	2,443,941	3,299,626	2,395,398	4.0%	2.0%
Gross profit	3,301,513	758,605	3,165,500	713,009	4.3%	6.4%
Gross margin	96.2%	31.0%	95.9%	29.8%	0.3%	1.2%
Core segmental profit (loss) ¹	1,963,534	(585,481)	1,923,262	(524,458)	2.1%	11.6%
Segmental operating expenses						
– Research and development	(634,272)	(536,678)	(557,561)	(491,261)	13.8%	9.2%
– Selling and marketing	(401,142)	(483,215)	(385,921)	(508,088)	3.9%	-4.9%
– Administrative	(306,586)	(291,157)	(306,434)	(254,866)	0.0%	14.2%

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

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

RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the audited consolidated financial results of the Group for the year ended 31 December 2020 together with the comparative figures in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>NOTES</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	4	6,137,640	5,793,075
Cost of revenue		(1,966,376)	(1,937,823)
Gross profit		4,171,264	3,855,252
Other income and gains	4	230,884	139,568
Impairment loss under expected credit loss model, net of reversal		1,607	(26,491)
Selling and marketing expenses		(893,513)	(915,754)
Administrative expenses		(903,111)	(883,083)
Development costs		(1,175,928)	(1,075,400)
Other expenses and losses		(326,817)	(307,820)
Share of losses of associates		(15,080)	(4,936)
Share of losses of joint ventures		(1,783)	(3,370)
Operating profit		1,087,523	777,966
Interest income on pledged bank deposits		3,263	3,181
Exchange gain (loss) on financial assets at fair value through profit or loss, bank borrowings, convertible preferred shares, convertible and exchangeable bonds and derivative financial instruments		45,302	(1,052)
Fair value change on convertible preferred shares		–	110,697
Fair value change on financial assets at fair value through profit or loss		51,733	219
Fair value change on derivative financial instruments		43,323	–
Finance costs		(157,680)	(24,742)
Profit before taxation		1,073,464	866,269
Taxation	6	(217,644)	(163,214)
Profit for the year		855,820	703,055

	<i>NOTE</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other comprehensive (expense) income for the year, net of income tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(11,568)	5,517
Item that will not be reclassified to profit or loss:			
Fair value gain on equity instruments at fair value through other comprehensive income		<u>6,042</u>	<u>878</u>
Other comprehensive (expense) income for the year		<u>(5,526)</u>	<u>6,395</u>
Total comprehensive income for the year		<u>850,294</u>	<u>709,450</u>
Profit (loss) for the year attributable to:			
– Owners of the Company		953,501	807,212
– Non-controlling interests		<u>(97,681)</u>	<u>(104,157)</u>
		<u>855,820</u>	<u>703,055</u>
Total comprehensive income (expense) for the year attributable to:			
– Owners of the Company		944,235	813,456
– Non-controlling interests		<u>(93,941)</u>	<u>(104,006)</u>
		<u>850,294</u>	<u>709,450</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share	8		
– Basic		171.19	152.68
– Diluted		<u>170.96</u>	<u>152.17</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020**

	<i>NOTE</i>	2020 RMB'000	2019 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,992,708	1,918,697
Right-of-use assets		455,011	467,250
Investment properties		76,529	95,090
Intangible assets		625,771	675,737
Interests in associates		49,659	54,655
Interests in joint ventures		16,563	12,346
Equity instruments at fair value through other comprehensive income		10,808	4,514
Financial assets at fair value through profit or loss		281,194	–
Loan receivables		10,421	9,573
Other receivables, prepayments and deposits		62,841	57,829
Deposits made for acquisition of property, plant and equipment		3,630	11,486
Goodwill		241,332	313,328
Deferred tax assets		43,437	47,317
		3,869,904	3,667,822
Current assets			
Properties under development		263,915	469,070
Properties for sale		253,367	20,640
Inventories		316,909	237,478
Loan receivables		22,042	27,354
Trade receivables	9	525,353	689,360
Other receivables, prepayments and deposits		399,537	328,369
Contract assets		12,236	18,333
Amount due from a related company		47	849
Amounts due from associates		–	2,262
Amounts due from joint ventures		974	279
Amount due from a director		–	400
Tax recoverable		14,035	6,689
Financial assets at fair value through profit or loss		5,781	1,492
Restricted bank balances		15,611	15,089
Pledged bank deposits		146,073	145,787
Bank deposit with original maturity over three months		33,021	–
Bank balances and cash		4,114,410	2,125,637
		6,123,311	4,089,088

	<i>NOTES</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current liabilities			
Trade and other payables	10	1,091,369	980,522
Contract liabilities		405,483	529,497
Lease liabilities		56,224	54,603
Provisions		71,501	69,867
Derivative financial instruments		40,894	–
Amount due to a related company		–	105
Amounts due to associates		3,484	257
Amount due to a joint venture		593	–
Convertible and exchangeable bonds	11	15,351	–
Bank borrowings	12	154,597	161,135
Dividend payable to non-controlling interests		99	–
Tax payable		121,083	107,120
		<u>1,960,678</u>	<u>1,903,106</u>
Net current assets		<u>4,162,633</u>	<u>2,185,982</u>
Total assets less current liabilities		<u>8,032,537</u>	<u>5,853,804</u>
Non-current liabilities			
Other payables	10	5,409	16,275
Convertible preferred shares		–	–
Convertible and exchangeable bonds	11	976,765	–
Bank borrowings	12	191,073	246,068
Lease liabilities		116,453	108,803
Deferred tax liabilities		90,907	121,610
		<u>1,380,607</u>	<u>492,756</u>
Net assets		<u>6,651,930</u>	<u>5,361,048</u>
Capital and reserves			
Share capital		40,951	38,822
Share premium and reserves		6,766,393	5,557,499
Equity attributable to owners of the Company		6,807,344	5,596,321
Non-controlling interests		(155,414)	(235,273)
		<u>6,651,930</u>	<u>5,361,048</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NET CASH FROM OPERATING ACTIVITIES	<u>1,329,651</u>	<u>1,175,804</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(253,747)	(359,344)
Placement of bank deposits with original maturity over three months	(35,214)	–
Acquisitions of subsidiaries	7,385	–
Acquisition of assets through acquisition of a subsidiary	(43,000)	–
Purchase of intangible assets	(63,589)	(77,167)
Advance of loan receivables	–	(12,000)
Deposits made for acquisition of property, plant and equipment	(3,065)	(10,927)
Investment in an associate	(20,000)	(36,000)
Investment in a joint venture	(6,000)	–
Payments for rental deposits	–	(432)
Repayment from (advance to) associates	2,262	(157)
(Advance to) repayment from a joint venture	(695)	472
Repayment from (advance to) a related company	802	(716)
Repayment from a director	400	–
Placement of restricted bank balance	(2,000)	–
Placement of pledged bank deposits	(340)	(145,168)
Withdrawal of bank deposits with original maturity over three months	–	67,112
Interest received	32,030	18,367
Repayment of loan receivables	3,693	4,253
Withdrawal of restricted bank balance	1,478	–
Proceeds from disposal of property, plant and equipment	1,014	1,600
Withdrawal of pledged bank deposits	–	155,883
Cash outflow from disposal of subsidiaries	–	(2,431)
Purchase of financial assets at fair value through profit or loss	(258,970)	–
Proceeds from disposal of financial assets at fair value through profit or loss	<u>5,600</u>	<u>–</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(631,956)</u>	<u>(396,655)</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
FINANCING ACTIVITIES		
New bank borrowings raised	258,068	304,347
Proceeds from shares issued upon exercise of share options	2,024	4,121
Repayment of bank borrowings	(310,686)	(223,771)
Dividends paid	(255,070)	(139,807)
Repayment of lease liabilities	(62,815)	(67,157)
Payment for repurchase and cancellation of shares	(43,308)	(8,802)
Proceeds from issue of ordinary shares	696,627	–
Proceeds from issue of convertible and exchangeable bonds and unlisted warrants	1,034,889	–
Acquisitions of additional equity interests from non-controlling interests	(6,467)	(1,989)
Contribution from non-controlling interests of subsidiaries	2,000	2,980
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NET CASH FROM (USED IN) FINANCING ACTIVITIES	1,315,262	(130,078)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	2,012,957	649,071
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CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,125,637	1,483,352
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EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(24,184)	(6,786)
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CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	4,114,410	2,125,637
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

3. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, 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 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 Concession*.

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and Amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2 ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts - Cost of fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvement to HKFRSs 2018 - 2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined.

Except for the amendments to HKFRS 3 *Reference to the Conceptual Framework*, the amendments to HKFRSs *Annual Improvements to HKFRSs 2018 - 2020* and the amendments to HKAS 1 *Classification of Liabilities as Current and Non-current and related amendments to Hong Kong Interpretation 5 (2020)*, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND OTHER INCOME AND GAINS

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Online and mobile games revenue	3,432,666	3,299,626
Education revenue (including sales of education equipment and related goods and educational services)	2,443,941	2,395,398
Mobile solution, products and marketing revenue	67,163	98,051
Property project revenue	193,870	–
	<u>6,137,640</u>	<u>5,793,075</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other income and gains		
Government grants (<i>Note</i>)	157,618	76,503
Interest income on bank balances, loan receivables, trade receivables and refundable rental deposits	32,064	17,407
Value-added tax incentives	15,955	10,381
Waiver of other payables	7,089	–
Bargain purchase gain arising from acquisition of subsidiaries	6,524	–
Rental income arising from subleases	5,349	8,475
Net gain arising from early termination of lease agreements	951	–
Covid-19 related rent concession	248	–
Game implementation income	200	1,467
Net gain on disposal of property, plant and equipment	11	–
Net foreign exchange gain	–	10,949
Rental income arising from operating lease payments that are at a fixed rate, net of negligible outgoing expenses	–	1,754
Fair value gain upon transfer from properties for sale to investment properties	–	7,545
Others	4,875	5,087
	230,884	139,568

Note: Government grants were received from the government of the People's Republic of China (the "PRC") mainly for subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred, which amount of RMB140,340,000 (2019: RMB68,907,000) for the year ended 31 December 2020 is recognised in profit or loss and (ii) the purchase of property, plant and equipment, which is deferred recognised to 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 RMB7,317,000 (2019: RMB7,596,000).

During the current year, the Group received government grants of RMB9,961,000 in respect of Covid-19-related subsidies, of which RMB9,941,000 relates to subsidy from the Employment Support Scheme provided by the Hong Kong government for the period from June to November 2020 and RMB20,000 relates to employment subsidy provided by the PRC government. The government grants received are wholly recognised in profit or loss in the current year.

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:

2020

	Online and mobile games <i>RMB’000</i>	Education <i>RMB’000</i>	Mobile solution, products and marketing <i>RMB’000</i>	Property project <i>RMB’000</i>	Total <i>RMB’000</i>
Segment revenue	<u>3,432,666</u>	<u>2,443,941</u>	<u>67,163</u>	<u>193,870</u>	<u>6,137,640</u>
Segment profit (loss)	<u>2,302,812</u>	<u>(846,292)</u>	<u>(47,736)</u>	<u>90,815</u>	1,499,599
Unallocated other income and gains					34,131
Unallocated corporate expenses and losses					<u>(460,266)</u>
Profit before taxation					<u>1,073,464</u>

2019

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

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

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

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Online and mobile games	4,769,546	3,781,763
Education	3,817,395	3,105,351
Mobile solution, products and marketing	84,801	140,875
Property project	619,567	574,593
	<hr/>	<hr/>
Total segment assets	9,291,309	7,602,582
Unallocated	701,906	154,328
	<hr/>	<hr/>
	9,993,215	7,756,910
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as certain investment properties, certain equity instruments at fair value through other comprehensive income, certain 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.

6. TAXATION

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	46,640	18,150
– (Over) under provision in prior years	(1,822)	495
	<hr/>	<hr/>
	44,818	18,645
	<hr/>	<hr/>
PRC Enterprise Income Tax		
– Current year	176,570	193,651
– Withholding tax	68	72
– Under (over) provision in prior years	2,409	(2,836)
	<hr/>	<hr/>
	179,047	190,887
	<hr/>	<hr/>
Taxation in other jurisdictions		
– Current year	22,477	5,167
– (Over) under provision in prior years	(1,131)	1,788
	<hr/>	<hr/>
	21,346	6,955
	<hr/>	<hr/>
Deferred taxation		
– Current year	(27,567)	(53,273)
	<hr/>	<hr/>
	217,644	163,214
	<hr/> <hr/>	<hr/> <hr/>

7. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividends recognised as distribution during the year:		
2020 Interim – HKD0.25 (2019: 2019 Interim dividend of HKD0.15) per share	128,780	69,998
2019 Final – HKD0.25 (2019: 2018 Final dividend of HKD0.15) per share	126,290	69,809
	255,070	139,807

The final dividend of HKD0.25 (2019: HKD0.25) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB118,044,000 (2019: RMB126,290,000).

8. EARNINGS PER SHARE

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings for the purpose of basic and diluted earnings per share:		
– Profit for the year attributable to the owners of the Company	953,501	807,212
	Number of shares	
	2020	2019
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	556,993	528,682
Effect of dilutive potential shares from the Company's share option scheme	747	1,772
Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	557,740	530,454

9. TRADE RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	554,403	720,940
Less: Allowance of credit losses	<u>(29,050)</u>	<u>(31,580)</u>
	<u>525,353</u>	<u>689,360</u>

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB450,435,000.

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade debtors		
0 – 30 days	253,872	505,653
31 – 60 days	115,077	52,617
61 – 90 days	35,820	23,083
Over 90 days	113,985	101,731
Receivables aged over 90 days with extended credit terms		
Due within one year	<u>6,599</u>	<u>6,276</u>
	<u>525,353</u>	<u>689,360</u>

10. TRADE AND OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	361,934	269,627
Accrued staff costs	286,563	277,804
Government grants	66,915	43,634
Receipt in advance	169	387
Other tax payables	25,713	37,310
Advertising payables	11,973	58,244
Payables for purchase of property, plant and equipment	115,222	107,674
Consultancy fee payables	15,137	8,643
Refundable rental deposits	–	419
Consideration payables	28,641	8,800
Payables for purchase of intangible assets	10,230	15,890
Accrued expenses	106,327	101,451
Payable for share repurchase	12,780	–
Others	<u>55,174</u>	<u>66,914</u>
	<u>1,096,778</u>	<u>996,797</u>
Analysed for financial reporting purpose:		
Current	1,091,369	980,522
Non-current	<u>5,409</u>	<u>16,275</u>
	<u>1,096,778</u>	<u>996,797</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 – 90 days	307,331	213,218
91 – 180 days	7,707	31,801
181 – 365 days	23,131	14,999
Over 365 days	23,765	9,609
	361,934	269,627

11. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, Best Assistant Education Online Limited (“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.

Convertible and exchangeable option

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

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 year is set out as below:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	–	–
Issue of convertible and exchangeable bonds, net of transaction costs	948,093	–
Interest accrued	129,865	–
Settlement of interest	(25,641)	–
Exchange adjustments	(60,201)	–
	992,116	–
Less: Interest payable within one year (shown under current liabilities)	(15,351)	–
Amount shown under non-current liabilities	976,765	–

12. BANK BORROWINGS

The carrying amounts of the bank borrowings are repayable*:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	121,774	132,470
Within a period of more than one year but not exceeding two years	184,244	44,702
Within a period of more than two years but within five years	6,829	201,366
	312,847	378,538
The carrying amounts of bank borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable:		
Within one year	32,823	28,665
	345,670	407,203
Less: Amounts due within one year shown under current liabilities	(154,597)	(161,135)
Amounts shown under non-current liabilities	191,073	246,068

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

The exposure of the Group's bank borrowings is as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Variable-rate borrowings	273,099	407,203
Fixed-rate borrowings	<u>72,571</u>	<u>–</u>
	<u>345,670</u>	<u>407,203</u>
Secured	310,464	407,203
Unsecured	<u>35,206</u>	<u>–</u>
	<u>345,670</u>	<u>407,203</u>

As at 31 December 2020, the borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries (2019: secured by a pledged bank deposit, a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries).

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2020, the Group had restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances and cash of approximately RMB4,309.1 million (31 December 2019: RMB2,286.5 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.05 (31 December 2019: 0.08). As at 31 December 2020, total bank borrowings of the Group amounted to approximately RMB345.7 million (31 December 2019: RMB407.2 million) which included variable-rate loan of RMB273.1 million (31 December 2019: RMB407.2 million) and fixed-rate loan of RMB72.6 million (31 December 2019: Nil). The bank borrowings of RMB310.5 million (31 December 2019: RMB407.2 million) were secured by a pledged bank deposit, a pledge of property of a subsidiary, right-of-use assets and corporate guarantee provided by the Company and its subsidiaries and the remaining bank borrowings of RMB35.2 million (31 December 2019: Nil) were unsecured.

As at 31 December 2020, the Group had net current assets of approximately RMB4,162.6 million as compared with approximately RMB2,186.0 million as at 31 December 2019.

STAFF INFORMATION

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

	At 31 December 2020	At 30 June 2020	At 31 December 2019
Research and development	3,721	3,726	3,751
Selling and marketing	1,386	1,456	1,427
Accounting, finance and general administration	1,088	968	967
Production	247	275	315
Total	<u>6,442</u>	<u>6,425</u>	<u>6,460</u>

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

As at 31 December 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:

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	250,822,457 (L)	44.71%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	5,353,580 (L)	0.95%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	250,822,457 (L)	44.71%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	250,822,457 (L)	44.71%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Chen Hongzhan (Note 5)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.00%

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

Notes:

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 34.06% 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 4.14% 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 3.39% 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 2.48% 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 44.71% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 3.23%, 0.07% and 96.66%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“**NetDragon (Fujian)**”). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).
4. Leung Lim Kin, Simon is interested in 0.95% 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 2.00% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. Chao Guowei, Charles is interested in 0.08% of the issued voting shares of the Company which is the underlying shares of interest of 438,500 shares options granted by the Company.
7. Lee Kwan Hung, Eddie is interested in 0.11% of the issued voting shares of the Company which is represented by personal interest of 114,519 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.15% of the issued voting shares of the Company which is represented by personal interest of 300,019 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 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.

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

So far as is known to the Directors, as at 31 December 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:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	34.06%
IDG Group (Note 2)	The Company	Beneficial owner	65,533,320 (L)	11.68%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	65,533,320 (L)	11.68%
Zhou Quan (Note 2)	The Company	Through controlled corporations	61,609,135 (L)	10.98%

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 1.94%, 7.51%, 1.53% and 0.70% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investors Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2020.

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 year ended 31 December 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	31 December 2020
Independent non-executive Directors								
Chao Guowei, Charles	04.12.2013	15.72	238,500	-	-	-	-	238,500
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Lee Kwan Hung, Eddie	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	23.04.2012	5.74	300,000	-	300,000	-	-	-
	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Others								
Employees	28.04.2011	4.80	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	-	43,200	-	-	131,250
	25.04.2014	14.66	278,000	-	-	-	-	278,000
Total			<u>2,457,084</u>	<u>-</u>	<u>345,700</u>	<u>-</u>	<u>-</u>	<u>2,111,384</u>

Note:

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

2018 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at				As at 31 December 2020	
			1 January 2020	Granted	Number of share options Exercised	Cancelled		Lapsed
Executive Directors								
Leung Lim Kin, Simon	24.01.2020	21.07	-	4,000,000	-	-	-	4,000,000
Independent non-executive Directors								
Chao Guowei, Charles	24.01.2020	21.07	-	100,000	-	-	-	100,000
Lee Kwan Hung, Eddie	24.01.2020	21.07	-	100,000	-	-	-	100,000
Liu Sai Keung, Thomas	24.01.2020	21.07	-	100,000	-	-	-	100,000
Others								
Employees	24.01.2020	21.07	-	2,000,000	-	-	-	2,000,000
Total			-	6,300,000	-	-	-	6,300,000

SHARE AWARD SCHEME

The Company

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

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

Details of the shares awarded under the NetDragon Share Award Scheme during the year ended 31 December 2020 are as follows:

Grantee	Date of grant	Average price per share (HKD) ^(Note)	Outstanding at 1 January 2020	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2020	Vesting period
Executive Directors								
Leung Lim Kin, Simon	19 April 2018	18.96	654,480	-	190,890	27,270	436,320	30 April 2018 – 30 April 2022
Leung Lim Kin, Simon	13 January 2020	18.96	-	120,000	120,000	-	-	13 January 2020
Others								
Employees	19 April 2018	18.96	676,800	-	127,430	209,050	340,320	30 April 2018 – 30 April 2022
			1,331,280	120,000	438,320	236,320	776,640	

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

776,640 awarded shares granted to a number of selected participants, including employees and directors, were outstanding as at 31 December 2020. The awarded shares, will be transferred to the selected directors or employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

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

Best Assistant Education Online Limited (“Best Assistant”)

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

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

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

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

As at 31 December 2020, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

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

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

As at 31 December 2020, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

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

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

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

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

As at 31 December 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 WARRANTS UNDER SPECIFIC MANDATE

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

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

As at 31 December 2020, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistants and no warrants were converted into shares of the Company.

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

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

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

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

Net proceeds raised from the Top-up Placing and Subscription	Intended use of the proceeds	Utilised proceeds as of 31 December 2020	Unutilised proceeds as of 31 December 2020
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.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the year ended 31 December 2020.

FINAL DIVIDEND

At the Board meeting held on Thursday, 25 March 2021, it was proposed that a final dividend of HKD0.25 per share for the year ended 31 December 2020, amounting to approximately RMB118,044,000 be paid on or before Friday, 9 July 2021 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Wednesday, 9 June 2021. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (the "2021 AGM") to be held on Thursday, 3 June 2021.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2021 AGM

The Company's register of members will be closed from Friday, 28 May 2021 to Thursday, 3 June 2021, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the AGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Thursday, 27 May 2021 for registration of the relevant transfer.

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

The Board has recommended the payment of a final dividend of HKD0.25 per share for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company on Wednesday, 9 June 2021 subject to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 9 June 2021 to Thursday, 10 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 8 June 2021.

PUBLICATION OF FINAL RESULTS AND 2020 ANNUAL REPORT

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

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Thursday, 3 June 2021. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2020 as set out in the results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the results announcement.

AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 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 LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2020, the Company bought back a total of 7,484,500 shares on the Stock Exchange at an aggregate consideration of HKD127,532,332 before expenses. All such shares were subsequently cancelled in January 2021. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Details of the share buy-backs are as follows:

Month of purchase	Number of ordinary shares bought back	Price per share		Aggregate consideration paid HKD
		Highest HKD	Lowest HKD	
September 2020	1,200,000	17.20	16.04	19,892,960
October 2020	1,720,000	17.88	16.62	29,922,280
December 2020	4,564,500	17.60	16.22	77,717,092

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2020.

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

Hong Kong, 25 March 2021

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