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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) continued to make significant progress across our business in the first half of 2022, as our revenue increased by 26.3% YoY to RMB4.2 billion and net profit attributable to owners of the Company increased by 31.2% YoY to RMB565.1 million. Our achievement is made possible by solid commercial execution, as well as years of investment in our product R&D, global sales network and most importantly our people to maintain our overall operational competencies at the highest level.

Our education business delivered a record growth performance in the first half of 2022. As we entered into the third year since the Covid-19 outbreak. We continued to see countries around the world accelerating their adoption of edtech with an ever-growing emphasis on blended learning in K12 classrooms. As the global market leader, we continued to innovate and drive positive, sustained impact on teachers and students. As a result, we further expanded our leadership position by increasing our market share in the first half of 2022, and delivered an exceptional performance with 71.2% YoY growth in education revenue. In addition, we stepped up our effort in pursuing partnerships and potential M&A opportunities to monetize our Promethean platform with software and SAAS applications.

In China, the resurgence of Covid-19 cases has led to challenges in the economy which inevitably affected consumer sentiment and spending power, and as a result impacted our gaming revenue during the first half of 2022. Despite the near-term challenges, we continued to focus on executing our long-term growth plan by actively building our pipeline of new games, driving players’ engagement level and expanding our base of paying users of our existing games. We are also excited by the quality of our pipeline. We are developing several new games under the Eudemons IP that will continue to drive the long-term revenue growth of this legendary IP, and we are also actively expanding into new IPs, new genres, and the overseas markets.

We are committed to following through on our capital return commitment to maximize value for our shareholders. To that end, we are pleased to announce that the board (the “Board”) declared a special interim dividend and an interim dividend of HKD0.50 and HKD0.40 per ordinary share respectively, for the first half of 2022. Meanwhile, we will continue to operate our business with a strong financial position with RMB3.5 billion in net cash as of 30 June 2022, which will enable us to capitalize on future acquisition, investment and strategic opportunities.

Education Business

Our education business achieved a record growth rate as its revenue in the first half of 2022 increased by 71.2% YoY, reaching RMB2.4 billion. Core segmental loss narrowed to RMB35.7 million as we benefit from strong operating leverage and disciplined cost management measures.

We continued to benefit from the accelerating global trend of edtech adoption and the growing emphasis on blended learning. And it has become increasingly clear that IFPD (interactive flat panel displays) is a necessity in every K12 classrooms, without which blended learning is not possible. As a result, the industry saw a phenomenal 71.5% YoY growth in shipment volume of IFPD in the international market during the first half of 2022. As the global market leader in IFPD, we continued to capitalize on the market momentum by delivering 82.5% YoY and 46.9% HoH growth in our volume shipment of IFPD. Not only did we hold the number-one market share globally, we also expanded our market share by 4.1 ppts HoH to 26.0% in the first half of 2022¹. We continued to win in the market as we increased our market share in all of our Top 5 countries by revenue contribution, namely the U.S., Italy, the U.K., Germany and France.

Our gross margin for the education business saw a decline from 30.6% to 25.3% YoY due to higher material and freight cost, and a 4.3% YoY reduction in ASP as we sold down inventory of ActivPanel 7 in anticipation of our new ActivPanel 9 product launch in June 2022. Since the second half of 2021, we have seen materials cost and freight cost trending down as global supply chain challenges started to ease, and as we continued to implement best practice measures on cost management, we have seen margin improvement on a sequential basis. Excluding the tariff impact, our adjusted gross margin for our key subsidiary Promethean increased by 1.3 ppts HoH from 28.6% to 29.9% in the first half of 2022.

We reached a major milestone in product innovation during the first half of 2022 as Promethean introduced the all-new ActivPanel 9 in June 2022 to deliver transformational user experience with enhanced simplicity, connectivity, security, adaptability, and longevity to address the key needs of the educators in a hybrid learning environment. Shipment has started since the official launch, and we expect the new model to continue to drive our future revenue growth. We also stepped up our effort in exploring for software monetization opportunities for our Promethean platform. In June 2022, Promethean entered into a US-based exclusive distribution agreement with leading education AI technology company Merlyn Mind as our first step to leverage our sales network to expand beyond hardware sales into SaaS solutions. At the same time, we are actively pursuing M&A opportunities with the intention to plug in ready-to-monetize software tools into our Promethean platform.

¹ Market share of global K-12 interactive panel market excluding China.

We continued to develop traction with our B2G country-rollout strategy. In Egypt, shipment for the definitive contract signed in the first quarter of 2022 (to supply 94,000 Promethean panels to K-12 schools around the country) is expected to commence in the second half of this year. In China, our priority is focused on our partnership with the National Center for Education Technology (“NCET”), a unit directly under the National Ministry of Education in China in building the National K-12 Smart Education Platform. Since the launch of this platform on 1 March 2022, the average daily page-view exceeded 40 million and number of registered users reached 21 million, as more and more regions within China are starting to adopt the platform.

Looking forward, we expect 2022 to be a year of exceptional growth. With our new ActivPanel 9, our expanded market leadership position and our operational capability, we believe we are in a strong position to capitalize on the opportunities ahead.

Gaming Business

Revenue of our gaming business decreased by 3.9% YoY to RMB1.8 billion in the first half of 2022, as the macro-economic impact from the pandemic in China has led to more conservative players’ spending across our domestic games. Revenue during the first half of 2022 from our PC games decreased by 5.2% YoY due to a relatively larger high-spending players’ cohort, while revenue from our mobile games increased by 3.1% YoY.

Revenue from our flagship IP Eudemons decreased by 0.6% HoH and 3.8% YoY in the first half of 2022. While players’ spending has been affected in the short term, we put our focus on driving players’ engagement and expanding our paying user base. We launched four expansion packs for our Eudemons games during the first half of 2022, and have conducted multiple in-game events and campaigns to drive activities, leading to YoY increase in both MAU and APA (Average Paying Accounts) for the IP. In particular, despite the macro impact on revenue, our Eudemons PC game registered a 34% YoY increase in MAU and a 65% YoY increase in APA. Eudemons Pocket Version, our game with the highest mobile revenue contribution, also delivered a resilient performance with a 7.8% YoY increase in revenue. In addition, we continued to make progress with expanding the influence of the Eudemons IP on the pan-entertainment front by launching its first ever stage play Eudemons Light of Yate in August 2022.

Our Conquer IP delivered stable revenue growth on the back of two expansion packs launched in the first half of 2022 and our continuous effort to innovate with new gameplay and contents. We also continued to focus on expanding the overseas markets for the Conquer IP, and while we maintained a 20.8% YoY gross billings growth in our core market in Egypt, our gross billings from outside of Egypt increased by 57.7% YoY.

We continued to make progress with our new gaming pipeline. In July 2022, we achieved a key milestone for our Under Oath IP as we reached agreement with a renowned global 3A game publisher to launch the overseas game version of this IP in multiple countries starting next year. In addition, we are also excited about the alpha launch of our first Web3 game Neopets Metaverse in August 2022, as we stay on track to bring this popular IP with over 150 million registered users to the Web3 space.

Looking forward, we expect to beta-launch Eudemons Mobile 2 and Neopets Faerie’s Hope in the second half of this year, and on top of those, we have a solid pipeline of new games lining up for 2023 and beyond. On the macro side, as China inevitably recovers from the Covid-related economic slowdown and as the gaming industry in China continues to trend towards a positive direction, we believe our gaming business is well positioned to achieve long-term sustainable growth.

FINANCIAL HIGHLIGHTS AND REVIEW

2022 First Half Financial Highlights

- Revenue was RMB4.2 billion, representing a 26.3% increase YoY.
- Revenue from the education business was RMB2.4 billion, representing 56.8% of the Group's total revenue and registering a 71.2% increase YoY.
- Revenue from the games business was RMB1.8 billion, representing 41.9% of the Group's total revenue and registering a 3.9% decrease YoY.
- Gross profit was RMB2.3 billion, representing a 4.0% increase YoY.
- Core segmental profit¹ from the games business was RMB1.0 billion, representing a 6.2% decrease YoY.
- Core segmental loss¹ from the education business was RMB35.7 million, representing an 86.1% improvement YoY.
- Operating profit was RMB744.6 million, representing a 7.7% increase YoY.
- Non-GAAP operating profit² was RMB854.4 million, representing a 13.3% increase YoY.
- EBITDA was RMB877.5 million, representing an 1.6% decrease YoY.
- Non-GAAP EBITDA² was RMB1.0 billion, representing an 11.2% increase YoY.
- Profit attributable to owners of the Company was RMB565.1 million, representing a 31.2% increase YoY.
- Non-GAAP profit attributable to owners of the Company² was RMB815.8 million, representing a 44.0% increase YoY.
- The Company declared a special interim dividend and an interim dividend of HKD0.50 and HKD0.40 per ordinary share respectively, for the six months ended 30 June 2022.

Segmental Financial Highlights

(RMB'000)	2022 First Half		2021 First Half	
	Gaming	Education	Gaming (Restated)	Education (Restated)
Revenue	1,775,729	2,409,818	1,847,548	1,407,641
Gross profit	1,699,076	609,687	1,765,923	431,055
Gross margin	95.7%	25.3%	95.6%	30.6%
Core segmental profit (loss) ¹	1,006,454	(35,672)	1,073,223	(256,327)
Segmental operating expenses ³				
– Research and development	(353,308)	(225,712)	(322,611)	(272,141)
– Selling and marketing	(187,531)	(252,210)	(200,100)	(235,190)
– Administrative	(152,373)	(177,033)	(170,948)	(172,155)

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, intercompany finance costs, impairment loss (net of reversal), impairment loss of intangible assets, inventories and interest in an associate, fair value change and exchange difference on financial assets at fair value through profit or loss ("FVTPL"), fair value change and exchange difference on derivative financial instruments, interest expense and exchange difference on convertible and exchangeable bonds and redundancy payment.

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

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

RESULTS

The Board of directors (the “Directors”) of the Company announced the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2022 together with the comparative figures in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2022

	NOTES	Six months ended 30 June	
		2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Revenue	4	4,240,381	3,356,174
Cost of revenue		(1,917,600)	(1,122,299)
Gross profit		2,322,781	2,233,875
Other income and gains		43,724	86,859
Impairment loss under expected credit loss model, net of reversal		(9,201)	(4,237)
Selling and marketing expenses		(442,111)	(437,997)
Administrative expenses		(464,017)	(485,206)
Development costs		(585,690)	(594,854)
Other expenses and losses		(112,123)	(94,341)
Share of losses of associates and joint ventures		(8,751)	(12,464)
Operating profit		744,612	691,635
Interest income on pledged bank deposits		–	819
Exchange (loss) gain on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments		(41,836)	7,522
Net (loss) gain on financial assets at fair value through profit or loss		(31,728)	12,052
Fair value gain (loss) on derivative financial instruments		7,851	(21,319)
Finance costs		(99,263)	(91,039)
Profit before taxation		579,636	599,670
Taxation	6	(37,601)	(216,042)
Profit for the period		542,035	383,628

		Six months ended 30 June	
		2022	2021
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTE</i>	RMB'000	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		16,713	(3,403)
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		<u>(841)</u>	<u>(2,504)</u>
Other comprehensive income (expense) for the period		<u>15,872</u>	<u>(5,907)</u>
Total comprehensive income for the period		<u>557,907</u>	<u>377,721</u>
Profit (loss) for the period attributable to:			
– Owners of the Company		565,114	430,732
– Non-controlling interests		<u>(23,079)</u>	<u>(47,104)</u>
		<u>542,035</u>	<u>383,628</u>
Total comprehensive income (expense) attributable to:			
– Owners of the Company		581,858	425,338
– Non-controlling interests		<u>(23,951)</u>	<u>(47,617)</u>
		<u>557,907</u>	<u>377,721</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share			
– Basic	8	104.42	77.45
– Diluted		<u>104.40</u>	<u>77.39</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022**

		30 June 2022	31 December 2021
	<i>NOTES</i>	<i>(Unaudited)</i> RMB'000	<i>(Audited)</i> RMB'000
Non-current assets			
Property, plant and equipment	9	1,924,889	1,939,499
Right-of-use assets		396,800	428,278
Investment properties		79,757	77,062
Intangible assets		716,479	772,309
Interests in associates and joint ventures		41,345	50,096
Equity instruments at fair value through other comprehensive income		57,331	8,105
Financial assets at fair value through profit or loss		339,633	266,078
Loan receivables		4,887	8,220
Other receivables, prepayments and deposits		64,427	37,543
Deposits made for acquisition of property, plant and equipment		6,894	4,690
Goodwill		228,518	217,087
Deferred tax assets		248,240	135,076
		4,109,200	3,944,043
Current assets			
Properties under development		307,753	316,872
Properties for sale		278,582	205,273
Inventories		733,134	685,117
Loan receivables		7,507	22,207
Trade receivables	10	972,352	831,986
Other receivables, prepayments and deposits		415,724	481,455
Contract assets		15,199	11,692
Amounts due from joint ventures		2,498	2,945
Tax recoverable		27,098	25,273
Financial assets at fair value through profit or loss		1,414	1,852
Restricted bank balances		–	7,828
Pledged bank deposits		1,099	1,047
Bank deposits with original maturity over three months		200,000	630,000
Bank balances and cash		3,701,808	3,717,246
		6,664,168	6,940,793

		30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
	<i>NOTES</i>		
Current liabilities			
Trade and other payables	11	1,387,566	1,455,221
Contract liabilities		327,393	357,240
Lease liabilities		61,513	63,571
Provisions		82,097	88,784
Derivative financial instruments		36,442	42,565
Amount due to an associate		–	936
Bank borrowings	12	443,152	402,910
Convertible and exchangeable bonds	13	15,583	15,000
Dividend payables		184,975	–
Tax payable		124,375	127,882
		<u>2,663,096</u>	<u>2,554,109</u>
Net current assets		<u>4,001,072</u>	<u>4,386,684</u>
Total assets less current liabilities		<u>8,110,272</u>	<u>8,330,727</u>
Non-current liabilities			
Other payables	11	15,483	10,763
Convertible and exchangeable bonds	13	1,194,081	1,069,874
Convertible preferred shares		–	–
Lease liabilities		69,519	95,370
Deferred tax liabilities		80,481	80,111
		<u>1,359,564</u>	<u>1,256,118</u>
Net assets		<u>6,750,708</u>	<u>7,074,609</u>
Capital and reserves			
Share capital		39,467	39,795
Share premium and reserves		6,980,105	7,274,605
Equity attributable to owners of the Company		7,019,572	7,314,400
Non-controlling interests		(268,864)	(239,791)
		<u>6,750,708</u>	<u>7,074,609</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH FROM OPERATING ACTIVITIES	480,061	474,911
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(88,692)	(72,985)
Placement of bank deposits with original maturity over three months	(200,000)	(730,000)
Withdrawal of bank deposits with original maturity over three months	630,000	–
Withdrawal of pledged bank deposits	–	145,000
Withdrawal of restricted bank deposit	7,828	2,000
Purchase of intangible assets	(55,546)	(189,061)
Deposits made for acquisition of property, plant and equipment	(3,674)	(1,592)
Investment in associates	–	(2,837)
Interest received	31,036	27,519
Repayment from (advance to) a joint venture	447	(18)
Purchase of financial assets at fair value through profit or loss	(4,203,243)	(3,022,000)
Purchase of equity instruments at fair value through other comprehensive income	(50,000)	–
Proceeds from disposal of financial assets at fair value through profit or loss	4,117,126	3,033,846
Other investing activities	16,585	2,141
NET CASH FROM (USED IN) INVESTING ACTIVITIES	201,867	(807,987)

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	338,827	127,827
Dividend paid	(632,197)	–
Proceeds from shares issued upon exercise of share options	92	431
Repayment of bank borrowings	(313,790)	(180,586)
Repayment of lease liabilities	(32,516)	(33,677)
Payment for repurchase and cancellation of shares	(68,453)	(65,185)
Acquisition of additional equity interests of subsidiaries from non-controlling interests	(7,208)	(1,830)
	<u>(715,245)</u>	<u>(153,020)</u>
NET CASH USED IN FINANCING ACTIVITIES		
	<u>(715,245)</u>	<u>(153,020)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(33,317)	(486,096)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	3,717,246	4,114,410
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>17,879</u>	<u>(8,329)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>3,701,808</u>	<u>3,619,985</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

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, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

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

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

2. BASIS OF PREPARATION

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

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s consolidated financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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

4. REVENUE

	Six months ended 30 June	
	2022	2021
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Online and mobile games revenue	1,775,729	1,847,548
Education revenue (including sales of education equipment and related goods and educational services)	2,409,818	1,407,641
Mobile solution, products and marketing revenue	38,339	39,150
Property project revenue	16,495	61,835
	<u>4,240,381</u>	<u>3,356,174</u>

5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers (“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 2022

	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>1,775,729</u>	<u>2,409,818</u>	<u>38,339</u>	<u>16,495</u>	<u>4,240,381</u>
Segment profit (loss)	<u>997,433</u>	<u>(286,148)</u>	<u>(6,043)</u>	<u>7,706</u>	712,948
Unallocated other income and gains					24,482
Unallocated corporate expenses and losses					<u>(157,794)</u>
Profit before taxation					<u>579,636</u>

Six months ended 30 June 2021

	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>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>
Segment profit (loss)	<u>1,115,550</u>	<u>(385,185)</u>	<u>210</u>	<u>19,894</u>	750,469
Unallocated other income and gains					36,335
Unallocated corporate expenses and losses					<u>(187,134)</u>
Profit before taxation					<u>599,670</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:

	30 June 2022 (Unaudited) <i>RMB'000</i>	31 December 2021 (Audited) <i>RMB'000</i>
Online and mobile games	4,704,391	5,427,573
Education	4,509,313	4,295,644
Mobile solution, products and marketing	68,704	76,323
Property project	663,515	594,513
Total segment assets	9,945,923	10,394,053
Unallocated	827,445	490,783
	<u>10,773,368</u>	<u>10,884,836</u>

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current period	31,360	29,974
– Over provision in prior years	<u>–</u>	<u>(146)</u>
	31,360	29,828
PRC Enterprise Income Tax		
– Current period	119,691	129,182
– Withholding tax	<u>–</u>	<u>345</u>
– Under provision in prior years	2,991	37,555
	122,682	167,082
Taxation in other jurisdictions		
– Current period	(718)	23,376
– Under provision in prior years	<u>916</u>	<u>426</u>
	198	23,802
Deferred tax		
– Current period	(3,437)	(4,670)
– Recognition of unused tax losses in prior years	<u>(113,202)</u>	<u>–</u>
	(116,639)	(4,670)
	37,601	216,042

Pursuant to a reorganisation completed during the current interim period, a subsidiary of the Company incorporated in the United States (“Subsidiary A”) became a subsidiary of another subsidiary of the Company incorporated in the United States (“Subsidiary B”, together with Subsidiary A, collectively the “Group B”). On the completion date of the said reorganisation, Subsidiary A was converted into a limited liability company and became disregarded as separate from its owner for the United States income tax purposes. According to the relevant applicable United States tax principles, members of Group B would file tax returns as one tax entity in the United States. The management of the Group assessed whether sufficient future profits or taxable temporary differences will be available in the future on a combined basis for Group B and concluded that certain amount of the unused tax losses of Subsidiary A can be utilised. Accordingly, a deferred tax asset of RMB130 million has been recognised in respect of these losses in the current interim period.

The realisability of the deferred tax asset arising from the above-mentioned tax losses of Subsidiary A is a key source of estimation uncertainty especially the uncertainty on how the Covid-19 pandemic may progress and evolve. In cases where the actual future taxable profits generated by Group B are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

7. DIVIDENDS

	Six months ended 30 June	
	2022	2021
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Dividends recognised as distribution during the period:		
2021 final dividend – Hong Kong dollar (“HKD”) 0.40 (2021: 2020 final dividend – HKD0.25) per share	176,845	117,100
2021 special interim dividend – HKD1.43 (2021: 2020 special interim dividend – Nil) per share	632,197	–
	809,042	117,100

Subsequent to the end of the current interim period, the directors of the Company have determined that a special interim dividend and an interim dividend of HKD0.50 per share and HKD0.40 per share, amounting to HKD270,372,000 (equivalent to RMB231,219,000) and HKD216,297,000 (equivalent to RMB184,976,000) respectively, will be paid to the shareholders of the Company whose names appear in the register of members on 14 September 2022.

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:

	Six months ended 30 June	
	2022	2021
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Earnings for the purpose of basic and diluted earnings per share:		
– Profit for the period attributable to the owners of the Company	565,114	430,732
	541,201	556,126
	99	455
	541,300	556,581

	Number of shares	
	Six months ended 30 June	
	2022	2021
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	'000	'000
Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	541,201	556,126
Effect of dilutive potential shares from the Company’s share option scheme	99	455
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)	541,300	556,581

9. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group paid approximately RMB88,692,000 (six months ended 30 June 2021: RMB72,985,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB23,240,000 (six months ended 30 June 2021: RMB22,498,000) in plant and equipment and RMB47,207,000 (six months ended 30 June 2021: RMB20,420,000) in construction in progress.

10. TRADE RECEIVABLES

The Group generally allows a credit period ranging from 30 days to 60 days to its distribution and payment channels/trade customers.

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
0 – 30 days	452,395	374,790
31 – 60 days	263,953	264,081
61 – 90 days	107,530	107,186
Over 90 days	148,474	85,929
	<u>972,352</u>	<u>831,986</u>

11. TRADE AND OTHER PAYABLES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade payables	840,312	681,135
Accrued staff costs	213,581	331,730
Government grants (Note i)	24,756	24,941
Other tax payables	20,215	28,352
Advertising payables	13,134	18,242
Payables for purchase of property, plant and equipment	100,215	104,930
Consultancy fee payables	8,409	7,215
Consideration payables (Note ii)	6,400	6,400
Accrued expenses (Note iii)	112,869	156,252
Loan interest payable (Note iv)	6,617	1,157
Payable for share repurchase	–	7,381
Compensation payable	–	23,035
Others (Note v)	56,541	75,214
	<u>1,403,049</u>	<u>1,465,984</u>
Analysed for financial reporting purpose:		
Current	1,387,566	1,455,221
Non-current	15,483	10,763
	<u>1,403,049</u>	<u>1,465,984</u>

Notes:

- (i) The amount represents government grants which are (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred and (ii) the costs incurred by the Group for purchasing property, plant and equipment, which will be recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure.
- (ii) The amount represents the remaining consideration payable for acquisition of several subsidiaries.
- (iii) Accrued expenses mainly represent accrued duty and freight fee, legal and professional fees and other miscellaneous items for operating activities.
- (iv) Included in loan interest payable amounted to RMB5,829,000 (31 December 2021: Nil) carry interest at 2.42% to 5.10% per annum and was secured by corporate guarantee provided by its subsidiaries.
- (v) Others mainly represent office and server service expenses payables and other miscellaneous items for operating activities.

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
0 – 90 days	759,102	614,099
91 – 180 days	18,767	6,599
181 – 365 days	7,888	5,391
Over 365 days	54,555	55,046
	840,312	681,135

12. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounted to RMB338,827,000 (six months ended 30 June 2021: RMB127,827,000). The bank borrowings as at 30 June 2022 carry interest at (i) one-month Hong Kong Interbank Offered Rate (“HIBOR”) plus 2.20% or 2.35% per annum, (ii) three-month Bloomberg Short-Term Bank Yield (“BSBY”) rate two business days prior to date of borrowing plus 1.35%, (iii) the United States Prime rate plus 0.35% or 0.50%, (iv) interest rate of 1.00% per annum or (v) one-year Loan Prime Rate of China less 0.20% per annum. The secured portion of the Group’s borrowings were secured by a pledge of property of a subsidiary, right-of-use assets, personal guarantee provided by a director of the Company, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

The bank borrowings as at 31 December 2021 carried interest at (i) one-month HIBOR plus 2.20% to 2.35% per annum, (ii) three-month BSBY rate two business days prior to date of borrowing plus 1.50%, (iii) the United States Prime rate plus 0.50% or (iv) interest rate of 1.00% or 3.85% per annum, and were repayable in 2022. The secured portion of the Group’s borrowings were secured by a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

13. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, a subsidiary of the Company issued convertible and exchangeable bonds with an aggregate principal amount of United States dollar (“USD”) 150,000,000 (equivalent to RMB1,038,900,000) to Nurture Education (Cayman) Limited (the “Investor”). Simultaneously, the Company issued unlisted warrants to the Investor in March 2020.

The warrants shall entitle the Investor to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds issued by the subsidiary of the Company 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. The convertible and exchangeable bonds are denominated in USD.

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
At 1 January	1,084,874	992,116
Interest accrued	89,666	165,181
Settlement of interest	(23,631)	(48,435)
Exchange adjustments	58,755	(23,988)
	1,209,664	1,084,874
Less: Interest payable within one year (shown under current liabilities)	(15,583)	(15,000)
Amount shown under non-current liabilities	1,194,081	1,069,874

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2022, the Group had pledged bank deposits, bank deposits with original maturity over three months, restricted bank balances and bank balances and cash of approximately RMB3,902.9 million (31 December 2021: RMB4,356.1 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.07 (31 December 2021: 0.06). As at 30 June 2022, total bank borrowings of the Group amounted to approximately RMB443.2 million (31 December 2021: RMB402.9 million) which included variable-rate loan of RMB105.6 million (31 December 2021: RMB191.5 million) and fixed-rate loan of RMB337.6 million (31 December 2021: RMB211.4 million). The bank borrowings of RMB407.0 million (31 December 2021: RMB368.5 million) were secured by a pledge of property of a subsidiary, right-of-use assets, corporate guarantee provided by the Company and its subsidiaries and personal guarantee provided by a director of the Company and the remaining bank borrowings of RMB36.2 million (31 December 2021: RMB34.4 million) were unsecured.

As at 30 June 2022, the Group had net current assets of approximately RMB4,001.1 million as compared with approximately RMB4,386.7 million as at 31 December 2021.

STAFF INFORMATION

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

	At 30 June 2022	At 31 December 2021	At 30 June 2021
Research and development	2,699	2,605	3,378
Selling and marketing	1,008	1,107	1,305
Accounting, finance and general administration	835	889	1,043
Production	242	233	238
Total	4,784	4,834	5,964

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

As at 30 June 2022, 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)	46.38%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	5,419,040 (L)	1.00%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	250,822,457 (L)	46.38%
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)	46.38%
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)	2.07%
Chao Guowei, Charles (Note 6)	The Company	Beneficial owner	438,500 (L)	0.08%
Lee Kwan Hung, Eddie (Note 7)	The Company	Beneficial owner	632,519 (L)	0.12%
Liu Sai Keung, Thomas (Note 8)	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 35.34% of the issued voting shares of the Company. Liu Dejian is also interested in 0.38% 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 4.30% 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 beneficial interest of 1,684,000 shares.

Zheng Hui is interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.52% 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 2.57% of the issued voting shares of the Company. Zheng Hui is also interested in 0.28% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 46.38% 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 Luyuan and Zheng Hui are interested in 0.07% and 99.89%, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”) respectively. Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).
4. Leung Lim Kin, Simon is interested in 1.00% of the issued voting shares of the Company which is represented by beneficial interest of 1,419,040 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 2.07% 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 114,519 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.15% of the issued voting shares of the Company which is represented by personal interest of 300,019 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2022, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 June 2022, 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 5% 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)	35.34%
IDG Group (Note 2)	The Company	Beneficial owner	53,533,320 (L)	9.90%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	53,533,320 (L)	9.90%
Zhou Quan (Note 2)	The Company	Through controlled corporations	50,470,735 (L)	9.33%

Notes:

1. The letter "L" denotes the shareholder 's long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.01%, 6.08%, 1.24% and 0.57% 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 5% or more of the issued voting shares of any other member of the Group as at 30 June 2022.

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 share option scheme which expired on 12 June 2018 (the “2008 Share Option Scheme”). Details of the share options outstanding movement during the period ended 30 June 2022 are as follows:

2008 Share Option Scheme

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options				As at
			1 January 2022	Granted	Exercised	Cancelled	Lapsed	30 June 2022
Independent non-executive Directors								
Chao Guowei, Charles	04.12.2013	15.72	238,500	-	-	-	-	238,500
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Lee Kwan Hung, Eddie	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Others								
Employees	23.04.2012	5.74	85,667	-	19,825	-	65,842	-
	12.09.2012	7.20	50,250	-	-	-	-	50,250
	16.01.2013	11.164	48,500	-	-	-	-	48,500
Total			<u>1,358,917</u>	<u>-</u>	<u>19,825</u>	<u>-</u>	<u>65,842</u>	<u>1,273,250</u>

2018 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options				As at
			1 January 2022	Granted	Exercised	Cancelled	Lapsed	30 June 2022
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	1,000,000	-	-	-	-	1,000,000
Total			5,300,000	-	-	-	-	5,300,000

Notes:

- The weighted average closing price of the shares immediately before various dates during 2022 on which the options were exercised was HKD16.19.

SHARE AWARD SCHEME

The Company

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

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

Details of the shares awarded under the NetDragon Share Award Scheme during the period ended 30 June 2022 are as follows:

Grantee	Date of grant	Average price per share (HKD) (Note)	Outstanding at 1 January 2022	Granted during period	Awards vested during period	Forfeited during period	Outstanding at 30 June 2022	Vesting period
Executive Directors								
Leung Lim Kin, Simon	19 April 2018	18.96	218,160	-	190,890	27,270	-	30 April 2018 – 30 April 2022
Others								
Employees	19 April 2018	18.96	148,080	-	87,420	60,660	-	30 April 2018 – 30 April 2022
			366,240	-	278,310	87,930	-	

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

No awarded share granted to a number of selected participants, including directors and employees, were outstanding as at 30 June 2022. The awarded shares, will be transferred to the selected directors or employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

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

Best Assistant Education Online Limited (“Best Assistant”)

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

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

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

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

As at 30 June 2022, 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 (“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 90.28% to approximately 83.40%.

As at 30 June 2022, 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, LLC (formerly known as “Edmodo, Inc.”) (“Edmodo”), Fortis Advisors LLC, in its capacity as representative of the shareholders of Edmodo, and the Company, solely with respect as guarantor for the timely performance of the obligations of Best Assistant and Digital Train entered into an agreement and plan of merger (the “Agreement and Plan of Merger”), pursuant to which Digital Train acquired Edmodo, for consideration in the form of cash and stock collectively valued in the amount of USD137,500,000, by way of merger under the laws of the State of Delaware.

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

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

As at 30 June 2022, 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. 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 a result of the payment of the Company’s dividend and pursuant to the relevant warrant instrument, effective as of 28 February 2022, the subscription price of the relevant warrant instrument is adjusted from HKD21.1998 to HKD19.6698. The net proceeds raised from the issuance of Convertible and Exchangeable Bonds and warrants were also applied and fully utilized as intended.

As at 30 June 2022, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistant and no warrants were converted into shares of the Company.

USE OF PROCEEDS FROM TOP-UP PLACING AND SUBSCRIPTION

On 13 February 2020, the Company entered into the placing and subscription agreement (the “Placing and Subscription Agreement”) with DJM Holding Ltd. (the “Vendor”), Dr. 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 places and the 33,000,000 Top-up Subscription Shares had been allotted and issued to Dr. 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 HKD23.44.

As at 30 June 2022, all net proceeds from the Top-up Placing and Subscription have been utilised as intended for funding the expansion of education business.

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 2022.

INTERIM DIVIDEND

On 30 August 2022, the Board has resolved to declare a special interim dividend and an interim dividend of HKD0.50 and HKD0.40 per ordinary share respectively for the six months ended 30 June 2022 (2021: HKD0.40 per share). The special interim dividend and the interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 14 September 2022. It is expected that the special interim dividend and the interim dividend will be distributed on or around 31 October 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Thursday, 15 September 2022, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the special interim dividend and the interim dividend for the six months ended 30 June 2022, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 13 September 2022.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2022 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 2022, 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, 30 August 2022

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.