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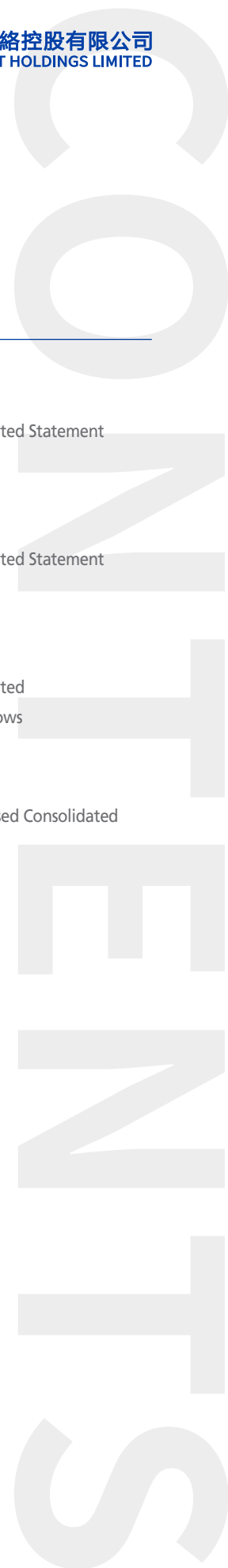
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# MANAGEMENT DISCUSSION AND ANALYSIS

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## (1) 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 profit<sup>1</sup> from the games business was RMB1.0 billion, representing a 6.2% decrease YoY.
- Core segmental loss<sup>1</sup> 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 profit<sup>2</sup> was RMB854.4 million, representing a 13.3% increase YoY.
- EBITDA was RMB877.5 million, representing a 1.6% decrease YoY.
- Non-GAAP EBITDA<sup>2</sup> 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 Company<sup>2</sup> 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### Segmental Financial Highlights

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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## (2) 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### 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 2022<sup>1</sup>. 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.

<sup>1</sup> Market share of global K-12 interactive panel market excluding China.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### Education Business (Cont'd)

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.



# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Gaming Business (Cont'd)

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.

### Corporate Development Milestones and Awards for the First Half of 2022

#### Corporate Development Milestones/Recognitions

January	Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) was awarded "The Most Valuable Education Enterprise of the 6th Golden Hong Kong Stocks" (第六屆金港股"最具價值教育公司") by Zhitong Finance and Tonghuashun Finance (智通財經同花順財經)
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\* For identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

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### (3) 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).

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.

### (4) GEARING RATIO

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.

### (5) CAPITAL STRUCTURE

As at 30 June 2022, the Group's total equity amounted to approximately RMB6,750.7 million (31 December 2021: RMB7,074.6 million).

### (6) CONTINGENT LIABILITIES

As at 30 June 2022 and 31 December 2021, the Group did not have any material contingent liabilities.

### (7) SIGNIFICANT INVESTMENTS AND ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Saved as disclosed in this interim report, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures as at 30 June 2022.

During the period, the Group did not have other plans for material investments and capital assets.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### (8) FOREIGN CURRENCY RISKS

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

### (9) CREDIT RISKS

As at 30 June 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### (10) LIQUIDITY RISK

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

### (11) STAFF INFORMATION

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

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

### (12) PERFORMANCE EVALUATION

#### Human Resources

1. As of 30 June 2022, the total number of employees of the Group is 4,784.
2. In the first half of 2022, we have been focused on the upgrade and development of talents according to the Company's strategies and goals. Outstanding talents in the fields of gaming and education were attracted by our extensive business platform, strong growth performances of business and our open and innovative mindset. Moreover, the Company launched the 2022 spring campus recruitment campaigns in key renowned universities across the country to attract graduates. The Company also participated the "on-job training" project launched by the Ministry of Education in response to the national call for employment stabilisation. Under the project, the Company propels continuously the collaboration between schools and corporations by launching internship collaboration projects with multiple renowned universities, which accelerates the cultivation of practical, interdisciplinary and in-demand talents needed by the Company and industry, optimises the allocation of human resources within the Company, increases the competitiveness of the Company's talent, enhances brand awareness and influence, and brings excellent new blood into the Company continuously.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### Human Resources (Cont'd)

3. NetDragon is committed to building a metaverse organisation where “everyone participates in co-creation and shares same values”. We breakthrough the organisational confinement by proactively disclosing information with flexible employment centered on metaverse work mode and business, which attracts flooding numbers of like-minded people to achieve better results and to build a brand-new education ecosystem in turn contributing to the global education. As the organisation transforms, we also improve corporate culture and upgrade the management system. To light up the road of exploration with “opening up” as our beacon; to conquer all challenges with “courage” as our weapon; to accomplish missions with “passion” as our tool. New culture values will guide us to the exploration of the unknown boundaries, which inspires us to keep abreast of the times.
4. To accelerate the transformation of digitalising human resources, we undergo the business process reengineering by, among others, data management review and external tool research. By leveraging electronic tools and platforms, the publicity and transparency of information is further facilitated while the exploration of non-departmentalised and decentralised organization is carried out, which promotes a non-hierarchical organization and elevates management efficiency and effectiveness.
5. We focus on values and center around corporate affairs. Under the Company’s prompt reward mechanism, innovation and value contribution are encouraged, high-calibre staff are rewarded for their contributions to the implementation of the strategies of the Company, the R&D progress of products/projects, innovation and creativity, generation of revenues and reduction of costs through non-work related innovation or improvements, and the bringing of honorary awards to the Company. The reward mechanism effectively incentivizes teams and individuals, encourages positive behaviors, and motivates all staff to create more value and contribution for the Company.

For internal talent cultivation, we have accelerated the progress towards building a more youthful management team by launching a candidate selection programme for management to openly recruit potential and willing reserve talents. Through building up a platform for high caliber staff to devote themselves and contribute their wisdom to the Company, identifying more talents through the internal talent pool, and increasing the proportion of young staff, the team can remain vigorous to boost the Company to be more up-to-date and future oriented in thinking and decision-making.

6. For the staff welfare and services, we constantly enhance the quality, efficiency and effectiveness of our services to the staff. In order to promote a harmonious relationship between our staff and the Company, we keep on innovating and enriching the forms of staff welfare events and improving staff care and condolence. Through diversified welfare activities, staff can feel heartwarming care in our caring culture. Meanwhile, we have followed the disease prevention policies and measures of the Government to assume our corporate responsibility in prevention of disease, and normalized the corporate disease prevention measures. We have established an effective mechanism to follow up on the disease prevention situation and released relevant updates and knowledge about disease prevention to our staff. We have thoroughly implemented the preventive measures to ensure the health of our staff are safeguarded, the preventive measures include but not limited to, cooperating with the government to undergo the required home quarantine and nucleic acid tests, and implementing remote working.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### (13) STAFF TRAININGS

NetDragon University is a base the Group established for nurturing suitable management and technical talents. It is committed to providing professional and systematic training to staff and promoting to them the philosophy and strategies of the Group as a whole, through which the overall professional capabilities of NetDragon's staff can be enhanced, while helping them in career development and improvement of personal capabilities.

#### Achievements in the first half of 2022

In the first half of 2022, in line with the strategic development and key business development of the Company, NetDragon University made every effort to assist the Company in achieving the annual goals of education business-related projects and improving the service of key positions. We continued to apply the "corporate affair-oriented" concept promoted by the Company and implemented the learning culture and value concept of the Company, which continued to push quality courses to staff and drove the learning atmosphere of our staff, as well as cultivated staff's thinking.

In the first half of 2022, the Company organised a total of 33 offline training events (excluding online course pushing, external forums and teaching within the campus) with total attendance of 1,478 participants. In addition, the Company uploaded 101 courses, 95 open lectures, 6 new certification courses and 2 enhanced certification courses to its online platform. In the first half of 2022, a total of 4,559 people participated in online platform learning with cumulative learning time of 107,643.69 hours and an average learning time of 23.61 hours per person.

The trainings included:

NetDragon Block Chain Engineer Training Camp (internal and external)	2 training sessions were held to nurture available talents in block chain technology and promote block chain technology-related knowledge with more than 230 people participating the activities.
NetDragon Software Product Design Training Camp	to provide the Company with a channel to attract more outstanding and high-potential personnel by offering a platform to learn product design-related knowledge to employees who intended to transfer or undertake part-time design task internally without design background but have potential and willingness. Currently 43 staff have been provided with related trainings.
99 Great Lectures	2 rounds of great lecture were held to share activities with a total of 169 people attending the live streams.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### Achievements in the first half of 2022 (Cont'd)

game appraisal sessions	9 game appraisal sessions were held with a total of 163 people attending the live streams.
new staff trainings	5 training sessions were organised for new staff with a total of 222 people being assessed for their performance after training in the probationary period.
U3D series certification	primary certification and intermediate certification for development of the Unity programming were offered, each with 1 participant getting pass.
primary training courses for design methodology	primary training courses for design methodology were conducted constantly with a total of 1,220 participants attending the courses.
design methodology certification	8 sessions of design methodology primary certification were organised with 186 participants in total getting pass; and 1 session of design methodology improvement class certification was organised with 5 participants in total.

### (14) CORPORATE CULTURE

#### Passion

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

#### Learning

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

#### Innovation

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

#### Aggressiveness

We are featured by aggressiveness. We like to distinguish ourselves by mastering opportunities, expressing opinions and ideas, being responsible for or participating in the projects which arouse our interest, gaining resources and support to win market opportunities and honestly communicating with others on development requirement. We believe that if everyone is willing to “step forward” proactively, internal impetus will be inspired and team power will gather to grow and expand the Group’s business.

#### Pursuit of excellence

Pursuit of excellence is a working standard for the staff of our Group. We aim for high inspirations, strive for excellence, attempt to challenge ourselves and surpass expectations. We plan further ahead, take better actions, striving to provide customers with the highest quality products and services, and constantly challenge our own potentials while doing our best.

#### Fairness

Fairness is the working atmosphere we promote. The Group strives to create a working atmosphere with fair allocation, fair procedures, public information and mutual respect, through impartial process and open supervision to ensure fair results, while hoping each employee can treat every matter and every person objectively and equally.

#### Customer comes first

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

### (15) INTERIM DIVIDEND

On 30 August 2022, the Board has resolved to declare a special interim dividend and an interim dividend of HKD0.50 per share and HKD0.40 per share respectively, for the six months ended 30 June 2022 (2021: interim dividend of HKD0.40 per share). Coupling with the interim dividend, the total dividends amount to HKD0.90 per share for the six months ended 30 June 2022. 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.

### (16) 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.



## OTHER INFORMATION

### 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:

<b>Name of Director</b>	<b>Name of Company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	250,822,457 (1)	46.38%
Leung Lim Kin, Simon <i>(Note 4)</i>	The Company	Beneficial owner	5,419,040 (1)	1.00%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and beneficiary of certain trust	250,822,457 (1)	46.38%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (1)	99.96%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	250,822,457 (1)	46.38%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (1)	99.96%

## OTHER INFORMATION

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

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Chen Hongzhan <i>(Note 5)</i>	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.07%
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)	0.12%
Liu Sai Keung, Thomas <i>(Note 8)</i>	The Company	Beneficial owner	818,019 (L)	0.15%

*Notes:*

- The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
- Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 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.

## OTHER INFORMATION

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

Notes: (Cont'd)

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.

## OTHER INFORMATION

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

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

<b>Name of Shareholder</b>	<b>Name of Company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	35.34%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	53,533,320 (L)	9.90%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	53,533,320 (L)	9.90%
Zhou Quan <i>(Note 2)</i>	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.

## OTHER INFORMATION

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

Notes: (Cont'd)

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.

## OTHER INFORMATION

### SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "2018 Share Option Scheme") to replace the share option scheme which expired on 12 June 2018 (the "2008 Share Option Scheme"). Details of the share options outstanding and movement during the period ended 30 June 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
<b>Independent non-executive Directors</b>								
Chao Guowei, Charles	04.12.2013	15.72	238,500	-	-	-	-	238,500
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Lee Kwan Hung, Eddie	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
<b>Others</b>								
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
<b>Total</b>			<u>1,358,917</u>	<u>-</u>	<u>19,825</u>	<u>-</u>	<u>65,842</u>	<u>1,273,250</u>

## OTHER INFORMATION

### SHARE OPTION SCHEME (Cont'd)

#### 2018 Share Option Scheme

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options				As at
			1 January 2022	Granted	Exercised	Cancelled	Lapsed	30 June 2022
<b>Executive Directors</b>								
Leung Lim Kin, Simon	24.01.2020	21.07	4,000,000	-	-	-	-	4,000,000
<b>Independent non-executive Directors</b>								
Chao Guowei, Charles	24.01.2020	21.07	100,000	-	-	-	-	100,000
Lee Kwan Hung, Eddie	24.01.2020	21.07	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	24.01.2020	21.07	100,000	-	-	-	-	100,000
<b>Others</b>								
Employees	24.01.2020	21.07	<u>1,000,000</u>	-	-	-	-	<u>1,000,000</u>
<b>Total</b>			<u><u>5,300,000</u></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><u>5,300,000</u></u>

*Notes:*

- For vesting period and exercise period of the options granted under the 2008 Share Option Scheme and the 2018 Share Option Scheme, please refer to note 23 of the Notes to the Consolidated Financial Statements.
- The weighted average closing price of the shares immediately before various dates during 2022 on which the options were exercised was HKD16.19.

## OTHER INFORMATION

### SHARE AWARD SCHEME

#### The Company

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

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

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	Awards			Outstanding at	Vesting period
			1 January 2022	Granted during period	vested during period	Forfeited during period	30 June 2022	
<b>Executive Directors</b>								
Leung Lim Kin, Simon	19 April 2018	18.96	218,160	-	190,890	27,270	-	30 April 2018 – 30 April 2022
<b>Others</b>								
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.



## OTHER INFORMATION

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### SHARE AWARD SCHEME (Cont'd)

#### The Company (Cont'd)

No awarded shares 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.

## OTHER INFORMATION

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### 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.

## OTHER INFORMATION

### 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"), 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.

## OTHER INFORMATION

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### USE OF PROCEEDS FROM TOP-UP PLACING AND SUBSCRIPTION (Cont'd)

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 HKD23.44.

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.

## OTHER INFORMATION

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### 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 per share and HKD0.40 per share for the six months ended 30 June 2022 (2021: interim dividend of 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.

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

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

Mr. Lee Kwan Hung, Eddie resigned as an independent non-executive director of Glory Sun Financial Group Limited, a company the shares of which are listed on the Main Board of the Stock Exchange, on 17 July 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 report.

## OTHER INFORMATION

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### 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

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# Deloitte.

# 德勤

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

(incorporated in the Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 31 to 70, which comprise the condensed consolidated statement of financial position as of 30 June 2022, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### CONCLUSION

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

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

30 August 2022



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

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

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

FOR THE SIX MONTHS ENDED 30 JUNE 2022

		<b>Six months ended 30 June</b>	
		<b>2022</b>	2021
		<b>(Unaudited)</b>	(Unaudited)
		<b>RMB'000</b>	RMB'000
	NOTE		
Other comprehensive income (expense) for the period, net of income tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<b>16,713</b>	(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		<b>(841)</b>	(2,504)
Other comprehensive income (expense) for the period		<b>15,872</b>	(5,907)
Total comprehensive income for the period		<b>557,907</b>	377,721
Profit (loss) for the period attributable to:			
– Owners of the Company		<b>565,114</b>	430,732
– Non-controlling interests		<b>(23,079)</b>	(47,104)
		<b>542,035</b>	383,628
Total comprehensive income (expense) attributable to:			
– Owners of the Company		<b>581,858</b>	425,338
– Non-controlling interests		<b>(23,951)</b>	(47,617)
		<b>557,907</b>	377,721
		<b>RMB cents</b>	RMB cents
<b>Earnings per share</b>			
– Basic	10	<b>104.42</b>	77.45
– Diluted		<b>104.40</b>	77.39

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	NOTES	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	11	1,924,889	1,939,499
Right-of-use assets	11	396,800	428,278
Investment properties		79,757	77,062
Intangible assets	11	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	12	339,633	266,078
Loan receivables		4,887	8,220
Other receivables, prepayments and deposits	15	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
		<b>4,109,200</b>	<b>3,944,043</b>
<b>Current assets</b>			
Properties under development		307,753	316,872
Properties for sale		278,582	205,273
Inventories	13	733,134	685,117
Loan receivables		7,507	22,207
Trade receivables	14	972,352	831,986
Other receivables, prepayments and deposits	15	415,724	481,455
Contract assets		15,199	11,692
Amounts due from joint ventures	16	2,498	2,945
Tax recoverable		27,098	25,273
Financial assets at fair value through profit or loss	12	1,414	1,852
Restricted bank balance		–	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
		<b>6,664,168</b>	<b>6,940,793</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	NOTES	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
<b>Current liabilities</b>			
Trade and other payables	17	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	12	36,442	42,565
Amount due to an associate	18	–	936
Bank borrowings	19	443,152	402,910
Convertible and exchangeable bonds	20	15,583	15,000
Dividend payables		184,975	–
Tax payable		124,375	127,882
		<b>2,663,096</b>	<b>2,554,109</b>
<b>Net current assets</b>			
		<b>4,001,072</b>	<b>4,386,684</b>
<b>Total assets less current liabilities</b>			
		<b>8,110,272</b>	<b>8,330,727</b>
<b>Non-current liabilities</b>			
Other payables	17	15,483	10,763
Convertible and exchangeable bonds	20	1,194,081	1,069,874
Convertible preferred shares	21	–	–
Lease liabilities		69,519	95,370
Deferred tax liabilities		80,481	80,111
		<b>1,359,564</b>	<b>1,256,118</b>
<b>Net assets</b>			
		<b>6,750,708</b>	<b>7,074,609</b>
<b>Capital and reserves</b>			
Share capital	22	39,467	39,795
Share premium and reserves		6,980,105	7,274,605
Equity attributable to owners of the Company		<b>7,019,572</b>	<b>7,314,400</b>
Non-controlling interests		(268,864)	(239,791)
		<b>6,750,708</b>	<b>7,074,609</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Attributable to owners of the Company														Total equity	
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Property revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Equity instruments at fair value through other comprehensive income reserve	Retained profits	Sub-total		Non-controlling interests
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000 (Note d)	RMB'000	RMB'000	RMB'000 (Note e)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	40,951	2,219,742	6,865	(145,030)	10,035	481,583	118,044	22,449	(19,135)	52,831	(114,782)	(3,381)	4,137,172	6,807,344	(155,414)	6,651,930
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	430,732	430,732	(47,104)	383,628
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	-	-	(3,658)	(1,736)	-	(5,394)	(513)	(5,907)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(3,658)	(1,736)	430,732	425,338	(47,617)	377,721
Repurchase and cancellation of shares	(334)	(64,851)	334	-	-	-	-	-	-	-	-	-	(334)	(65,185)	-	(65,185)
Shares issued upon exercise of share options	5	592	-	-	-	-	-	-	-	(166)	-	-	-	431	-	431
Recognition of share awards granted by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28	28
Recognition of equity-settled share-based payments, net of awarded shares and share options forfeited	-	-	-	-	-	-	-	-	(136)	-	-	-	6,781	6,645	-	6,645
Awarded shares vested to employees	-	-	-	-	-	-	-	6,482	(7,001)	-	-	-	519	-	-	-
Acquisition of additional equity interests of subsidiaries from non-controlling interests	-	-	-	3,494	-	-	-	-	-	-	-	-	-	3,494	(5,324)	(1,830)
Final dividend for 2020 declared	-	-	-	-	-	-	(118,044)	-	-	-	-	-	944	(117,100)	-	(117,100)
Interim dividend for 2021 proposed	-	-	-	-	-	-	185,232	-	-	-	-	-	(185,232)	-	-	-
At 30 June 2021 (unaudited)	40,622	2,155,483	7,199	(141,536)	10,035	481,583	185,232	22,449	(12,653)	45,528	(118,440)	(5,117)	4,390,582	7,060,967	(208,327)	6,852,640
At 1 January 2022	39,795	1,985,077	8,050	(147,703)	10,035	525,135	810,514	22,449	(12,653)	50,847	(138,877)	(5,258)	4,166,989	7,314,400	(239,791)	7,074,609
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	565,114	565,114	(23,079)	542,035
Other comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	17,323	(579)	-	16,744	(872)	15,872
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	17,323	(579)	565,114	581,858	(23,951)	557,907
Repurchase and cancellation of shares	(330)	(68,123)	330	-	-	-	-	-	-	-	-	-	(330)	(68,453)	-	(68,453)
Shares issued upon exercise of share options	2	125	-	-	-	-	-	-	-	(35)	-	-	-	92	-	92
Recognition of share awards granted by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	13
Recognition of equity-settled share-based payments, net of awarded shares and share options forfeited	-	-	-	-	-	-	-	-	-	2,676	-	-	114	2,790	-	2,790
Awarded shares vested to employees	-	-	-	-	-	-	-	4,258	(4,582)	-	-	-	324	-	-	-
Acquisition of additional equity interests of subsidiaries from non-controlling interests	-	-	-	(2,073)	-	-	-	-	-	-	-	-	-	(2,073)	(5,135)	(7,208)
Final dividend for 2021 declared	-	-	-	-	-	-	(178,317)	-	-	-	-	-	1,472	(176,845)	-	(176,845)
Special interim dividend for 2021 declared and paid	-	-	-	-	-	-	(632,197)	-	-	-	-	-	-	(632,197)	-	(632,197)
Interim dividend for 2022 proposed	-	-	-	-	-	-	184,976	-	-	-	-	-	(184,976)	-	-	-
Special interim dividend for 2022 proposed	-	-	-	-	-	-	231,219	-	-	-	-	-	(231,219)	-	-	-
Transfer	-	-	-	-	-	(40)	-	-	-	-	-	-	40	-	-	-
At 30 June 2022 (unaudited)	39,467	1,917,079	8,380	(149,776)	10,035	525,095	416,195	22,449	(8,395)	48,906	(121,554)	(5,837)	4,317,528	7,019,572	(268,864)	6,750,708

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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Notes:

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

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	<b>Six months ended 30 June</b>	
	<b>2022</b> <b>(Unaudited)</b> <b>RMB'000</b>	2021 (Unaudited) RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit for the period	<b>542,035</b>	383,628
Adjustments for:		
Taxation	<b>37,601</b>	216,042
Interest income on bank balances, pledged bank deposits, loan receivables and refundable rental deposits	<b>(18,677)</b>	(31,477)
(Gain) loss on fair value change of derivative financial instruments	<b>(7,851)</b>	21,319
Net loss (gain) on financial assets at fair value through profit or loss	<b>31,728</b>	(12,052)
Gain on fair value change of investment properties	<b>–</b>	(2,333)
Amortisation of intangible assets	<b>67,398</b>	59,876
Depreciation of property, plant and equipment	<b>95,024</b>	99,200
Depreciation of right-of-use assets	<b>36,216</b>	42,303
Impairment loss of interest in an associate	<b>–</b>	22,570
Impairment loss of intangible assets	<b>55,215</b>	–
Impairment loss of inventories	<b>24,396</b>	–
Interest expense on bank borrowings (included in finance costs)	<b>5,812</b>	6,218
Interest expense on convertible and exchangeable bonds (included in finance costs)	<b>89,666</b>	79,839
Others	<b>24,256</b>	28,222
Operating cash flows before movements in working capital	<b>982,819</b>	913,355
Increase in trade receivables	<b>(139,812)</b>	(90,384)
Increase in inventories	<b>(71,128)</b>	(79,342)
Increase in properties under development	<b>(69,228)</b>	(33,968)
Decrease in properties for sale	<b>5,038</b>	43,854
Decrease (increase) in other receivables, prepayments and deposits	<b>30,926</b>	(54,157)
(Decrease) increase in trade and other payables	<b>(35,188)</b>	27,195
Decrease in contract liabilities	<b>(29,847)</b>	(25,793)
(Decrease) increase in provisions	<b>(663)</b>	6,984
Others	<b>(4,443)</b>	(7,957)
Cash generated from operations	<b>668,474</b>	699,787
Interest paid	<b>(27,768)</b>	(34,481)
Income tax paid	<b>(160,645)</b>	(190,395)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>480,061</b>	474,911

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Six months ended 30 June	
	NOTE	<b>2022</b> <b>(Unaudited)</b> <b>RMB'000</b>	2021 (Unaudited) RMB'000
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	11	<b>(88,692)</b>	(72,985)
Placement of bank deposits with original maturity over three months		<b>(200,000)</b>	(730,000)
Withdrawal of bank deposits with original maturity over three months		<b>630,000</b>	–
Withdrawal of pledged bank deposits		–	145,000
Withdrawal of restricted bank balance		<b>7,828</b>	2,000
Purchase of intangible assets	11	<b>(55,546)</b>	(189,061)
Deposits made for acquisition of property, plant and equipment		<b>(3,674)</b>	(1,592)
Investment in associates		–	(2,837)
Interest received		<b>31,036</b>	27,519
Repayment from (advance to) a joint venture		<b>447</b>	(18)
Purchase of financial assets at fair value through profit or loss		<b>(4,203,243)</b>	(3,022,000)
Purchase of equity instruments at fair value through other comprehensive income		<b>(50,000)</b>	–
Proceeds from disposal of financial assets at fair value through profit or loss		<b>4,117,126</b>	3,033,846
Other investing activities		<b>16,585</b>	2,141
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>201,867</b>	(807,987)
<b>FINANCING ACTIVITIES</b>			
New bank borrowings raised		<b>338,827</b>	127,827
Dividend paid		<b>(632,197)</b>	–
Proceeds from shares issued upon exercise of share options		<b>92</b>	431
Repayment of bank borrowings		<b>(313,790)</b>	(180,586)
Repayment of lease liabilities		<b>(32,516)</b>	(33,677)
Payment for repurchase and cancellation of shares		<b>(68,453)</b>	(65,185)
Acquisition of additional equity interests of subsidiaries from non-controlling interests		<b>(7,208)</b>	(1,830)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(715,245)</b>	(153,020)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(33,317)</b>	(486,096)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>3,717,246</b>	4,114,410
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>17,879</b>	(8,329)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>		<b>3,701,808</b>	3,619,985



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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## 1. GENERAL INFORMATION

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

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

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

## 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

#### 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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 4. REVENUE (Cont'd)

Disaggregation of revenue from contracts with customers

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

*Types of goods and services*

	Six months ended 30 June 2022 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
Revenue from sales of pre-paid game cards for online and mobile games	1,775,729	-	-	-	1,775,729
Sales of education equipment and related goods	-	2,335,138	-	-	2,335,138
Revenue from provision of mobile solution, products and marketing services	-	-	38,339	-	38,339
Revenue from educational services	-	74,680	-	-	74,680
Revenue from property project	-	-	-	16,495	16,495
	<u>1,775,729</u>	<u>2,409,818</u>	<u>38,339</u>	<u>16,495</u>	<u>4,240,381</u>

	Six months ended 30 June 2021 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
Revenue from sales of pre-paid game cards for online and mobile games	1,847,548	-	-	-	1,847,548
Sales of education equipment and related goods	-	1,344,003	-	-	1,344,003
Revenue from provision of mobile solution, products and marketing services	-	-	39,150	-	39,150
Revenue from educational services	-	63,638	-	-	63,638
Revenue from property project	-	-	-	61,835	61,835
	<u>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 4. REVENUE (Cont'd)

Disaggregation of revenue from contracts with customers (Cont'd)

*Timing of revenue recognition*

Six months ended 30 June 2022 (Unaudited)					
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
A point in time	1,775,729	2,335,138	-	16,495	4,127,362
Over time	-	74,680	38,339	-	113,019
	<u>1,775,729</u>	<u>2,409,818</u>	<u>38,339</u>	<u>16,495</u>	<u>4,240,381</u>

Six months ended 30 June 2021 (Unaudited)					
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
A point in time	1,847,548	1,344,003	-	61,835	3,253,386
Over time	-	63,638	39,150	-	102,788
	<u>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 4. REVENUE (Cont'd)

Disaggregation of revenue from contracts with customers (Cont'd)

*Geographical information*

	Six months ended 30 June 2022 (Unaudited)				Total RMB'000
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	
United States of America ("USA")	258,090	1,604,547	-	-	1,862,637
PRC	1,501,009	127,140	-	16,495	1,644,644
Italy	-	175,665	-	-	175,665
Germany	-	173,007	-	-	173,007
United Kingdom	-	109,931	-	-	109,931
Hong Kong	-	636	36,131	-	36,767
France	-	35,966	-	-	35,966
Puerto Rico	-	32,067	-	-	32,067
Ireland	-	23,012	-	-	23,012
Spain	-	18,226	-	-	18,226
Australia	-	15,656	-	-	15,656
Canada	-	11,963	-	-	11,963
Netherlands	-	9,666	-	-	9,666
Others	16,630	72,336	2,208	-	91,174
	<u>1,775,729</u>	<u>2,409,818</u>	<u>38,339</u>	<u>16,495</u>	<u>4,240,381</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 4. REVENUE (Cont'd)

Disaggregation of revenue from contracts with customers (Cont'd)

*Geographical information (Cont'd)*

	Six months ended 30 June 2021 (Unaudited)				
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Property project revenue RMB'000	Total RMB'000
USA	236,435	942,736	–	–	1,179,171
PRC	1,594,296	84,817	40	61,835	1,740,988
Italy	–	29,215	–	–	29,215
Germany	–	132,558	–	–	132,558
United Kingdom	–	72,483	–	–	72,483
Hong Kong	–	1,434	37,603	–	39,037
France	–	25,086	–	–	25,086
Puerto Rico	–	3,427	–	–	3,427
Ireland	–	18,198	–	–	18,198
Spain	–	21,688	–	–	21,688
Australia	–	12,900	–	–	12,900
Canada	–	3,288	–	–	3,288
Netherlands	–	12,437	–	–	12,437
Others	16,817	47,374	1,507	–	65,698
	<u>1,847,548</u>	<u>1,407,641</u>	<u>39,150</u>	<u>61,835</u>	<u>3,356,174</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 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>	<u>712,948</u>
Unallocated other income and gains					<u>24,482</u>
Unallocated corporate expenses and losses					<u>(157,794)</u>
Profit before taxation					<u>579,636</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

Six months ended 30 June 2021

	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>1,847,548</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.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 5. SEGMENT INFORMATION (Cont'd)

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 6. OTHER INCOME (EXPENSES) AND GAINS (LOSSES)

(a) Other income and gains

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Government grants (Note)	<b>8,057</b>	34,811
Interest income on bank balances, loan receivables and refundable rental deposits	<b>18,677</b>	30,658
Value-added tax incentives	<b>7,858</b>	8,928
Rental income, net of negligible outgoing expenses	<b>272</b>	–
Rental income arising from subleases	<b>2,189</b>	2,516
Gain on fair value change of investment properties	–	2,333
Net gain on disposal of property, plant and equipment	–	377
Compensation income	–	305
Others	<b>6,671</b>	6,931
	<b>43,724</b>	86,859

Note: Government grants were received from the government of the PRC mainly for subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred, which amounted to RMB3,162,000 (six months ended 30 June 2021: RMB28,571,000) for the six months ended 30 June 2022 and is recognised in profit or loss and (ii) the purchase of property, plant and equipment, which is recognised as deferred income upon receipt and is recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure with an amount of RMB2,829,000 (six months ended 30 June 2021: RMB6,240,000).

During the current interim period, the Group received government grants of RMB2,066,000 in respect of Covid-19-related subsidies, of which RMB2,062,000 related to subsidy from the Employment Support Scheme provided by the Hong Kong government for the period from May and June 2022 and RMB4,000 related to employment subsidy provided by the Thailand government. All of the government grants received were recognised in profit or loss during the six months ended 30 June 2022.

During the six months ended 30 June 2021, the Group did not receive government grants in respect of Covid-19-related subsidies.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 6. OTHER INCOME (EXPENSES) AND GAINS (LOSSES) (Cont'd)

(b) Other expenses and losses

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Impairment loss of intangible assets	<b>55,215</b>	–
Redundancy payments	<b>26,013</b>	13,503
Other tax and charges	<b>17,617</b>	16,406
Net foreign exchange loss	<b>7,193</b>	20,838
Donation	<b>962</b>	15,669
Impairment loss of interest in an associate	<b>–</b>	22,570
Others	<b>5,123</b>	5,355
	<b>112,123</b>	94,341

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 7. TAXATION

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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## 7. TAXATION (Cont'd)

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 8. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	<b>12,998</b>	14,110
Other staff costs:		
Salaries and other benefits	<b>935,161</b>	967,219
Contributions to retirement benefits schemes	<b>68,693</b>	83,231
Share-based payments expense	<b>(81)</b>	(1,390)
Redundancy payments	<b>26,013</b>	13,503
	<b>1,042,784</b>	1,076,673
Amortisation of intangible assets	<b>67,398</b>	59,876
Depreciation of property, plant and equipment	<b>95,024</b>	99,200
Depreciation of right-of-use assets	<b>36,216</b>	42,303
Total depreciation and amortisation	<b>198,638</b>	201,379
Auditors' remuneration	<b>2,781</b>	3,208
Cost of goods sold for education equipment and related goods	<b>1,679,116</b>	855,308
Advertising and promotion expenses (included in selling and marketing expenses)	<b>187,581</b>	174,647
Impairment loss of:		
– interest in an associate	<b>–</b>	22,570
– intangible assets	<b>55,215</b>	–
– inventories	<b>24,396</b>	–
Net loss (gain) on disposal of property, plant and equipment	<b>195</b>	(377)
Net foreign exchange loss excluding exchange loss (gain) on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	<b>7,193</b>	20,838

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 9. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	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	<b>176,845</b>	117,100
2021 special interim dividend – HKD1.43 (2021: 2020 special interim dividend – Nil) per share	<b>632,197</b>	–
	<b>809,042</b>	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.

## 10. 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:

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 10. EARNINGS PER SHARE (Cont'd)

	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(Unaudited)</b>	(Unaudited)
	<b>'000</b>	'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)	<b>541,201</b>	556,126
Effect of dilutive potential shares from the Company's share option scheme	<b>99</b>	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)	<b>541,300</b>	556,581

### 11. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

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.

During the current interim period, the Group entered into several new lease agreements ranging from 2 to 5 years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets of RMB6,189,000 (six months ended 30 June 2021: RMB41,855,000) and lease liabilities of RMB5,872,000 (six months ended 30 June 2021: RMB41,414,000).

During the current interim period, the Group paid approximately RMB55,546,000 (six months ended 30 June 2021: RMB189,061,000) for the acquisition of intangible assets to expand its operations. Included in the amount were the acquisition of cryptocurrencies of approximately United States dollar ("USD") 300,000 (equivalent to RMB2,004,000) (six months ended 30 June 2021: USD19,000,000 (equivalent to RMB122,821,000)). During six months ended 30 June 2021, included in the amount was approximately RMB28,302,000 for acquisition of a sports lottery license. During the six months ended 30 June 2022, the Group performed impairment testing as a result of the market turmoil of cryptocurrencies that indicate that the relevant intangible assets may be impaired and recognised impairment loss of RMB55,215,000 (six months ended 30 June 2021: Nil).



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

	<b>30 June 2022 (Unaudited) RMB'000</b>	31 December 2021 (Audited) RMB'000
<b>Financial assets at FVTPL</b>		
– Equity-linked warrants	1,414	1,852
– Unlisted funds (Note i)	258,511	266,078
– Unlisted equity investments (Note ii)	81,122	–
	<u><b>341,047</b></u>	<u>267,930</u>
Analysed for financial reporting purpose:		
Non-current	<b>339,633</b>	266,078
Current	<u>1,414</u>	<u>1,852</u>
	<u><b>341,047</b></u>	<u>267,930</u>
<b>Derivative financial instruments (financial liabilities)</b>		
– Convertible and exchangeable option (Note 20)	–	–
– Unlisted warrants (Note iii)	36,442	42,565
	<u><b>36,442</b></u>	<u>42,565</u>

Notes:

- (i) The unlisted funds represent a portfolio of investments managed by fund managers, most of the portfolio assets are invested in the listed securities in Hong Kong and the PRC. These investments are not held for trading, instead, they are held for long-term purposes. The Group is not expected to realise the funds within twelve months from the end of the reporting period, therefore the unlisted funds are classified as non-current assets.
- (ii) The unlisted equity investments represent the Group's investment in equity interests in two private entities, which engaged in investment in cryptocurrencies, tokens, blockchain-based assets and other digital assets.
- (iii) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 20.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 13. INVENTORIES

	<b>30 June 2022 (Unaudited) RMB'000</b>	31 December 2021 (Audited) RMB'000
Raw materials	<b>5,190</b>	5,490
Finished goods	<b>727,944</b>	679,627
	<b>733,134</b>	685,117

### 14. 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:

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<b>30 June 2022 (Unaudited) RMB'000</b>	31 December 2021 (Audited) RMB'000
Prepayments to suppliers	<b>83,617</b>	86,077
Prepayments for rented premises, utilities and server	<b>84,673</b>	56,684
Prepayment for license fee	<b>26,846</b>	–
Refundable rental and guarantee deposits (Note)	<b>75,275</b>	77,278
Other receivables from agent for repurchasing the shares of the Company	<b>–</b>	19,941
Other receivables from agent for purchase of cryptocurrencies	<b>18,018</b>	–
Prepayment for convertible and exchangeable bonds interest	<b>50,336</b>	47,818
Prepayment for promotion expenses	<b>7,683</b>	21,447
Interest receivables	<b>2,082</b>	14,690
Other tax recoverable	<b>66,645</b>	68,115
Government grant receivables	<b>–</b>	62,712
Compensation receivables	<b>–</b>	10,137
Others	<b>64,976</b>	54,099
	<b>480,151</b>	518,998
Analysed for financial reporting purpose:		
Current	<b>415,724</b>	481,455
Non-current	<b>64,427</b>	37,543
	<b>480,151</b>	518,998

Note: Included in refundable rental and guarantee deposits, there are balances of:

- (i) RMB31,581,000 (31 December 2021: RMB31,543,000) which represents prepayment and deposit for potential lease contracts paid to a related company 福州楊振華851生物工程技術研究開發有限公司 (Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.) ("Fuzhou 851") as at 30 June 2022; and
- (ii) RMB25,000,000 (31 December 2021: RMB25,000,000) which represents deposit for technical support service paid to 福州天亮網絡技術有限公司 (Fuzhou Tianliang Network Technology Co., Limited), an independent third party, as at 30 June 2022.

## 16. AMOUNTS DUE FROM JOINT VENTURES

As at 30 June 2022 and 31 December 2021, the amounts due from joint ventures are not trade in nature, unsecured, non-interest bearing and repayable on demand.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 17. TRADE AND OTHER PAYABLES

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

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

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

## 18. AMOUNT DUE TO AN ASSOCIATE

The amount as at 31 December 2021 was trade in nature, aged within 90 days, unsecured, non-interest bearing and repayable on demand. The full amount has been settled during the current interim period.

## 19. 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 20. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, a subsidiary of the Company 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 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:

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

### 21. CONVERTIBLE PREFERRED SHARES

At the end of each reporting period subsequent to initial recognition, the financial liability component of the convertible preferred shares issued by a subsidiary of the Company is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

As at 30 June 2022 and 31 December 2021, the fair value of the convertible preferred shares is nil.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 22. SHARE CAPITAL

	Number of shares	Nominal value	
		USD'000	RMB'000
<b>Authorised:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2021, 30 June 2021, 31 December 2021, and 30 June 2022	<b>1,000,000,000</b>	<b>10,000</b>	<b>75,771</b>
<b>Issued and fully paid:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2021	561,020,516	5,610	40,951
Shares issued upon exercise of share options (Note i)	77,517	-	5
Repurchase and cancellation of shares (Note i)	(4,564,500)	(45)	(334)
At 30 June 2021	556,533,533	5,565	40,622
Shares issued upon exercise of share options	379,275	4	24
Repurchase and cancellation of shares	(11,667,500)	(117)	(851)
At 31 December 2021	<b>545,245,308</b>	<b>5,452</b>	<b>39,795</b>
Shares issued upon exercise of share options (Note ii)	<b>19,825</b>	<b>-</b>	<b>2</b>
Repurchase and cancellation of shares (Note ii)	<b>(4,521,500)</b>	<b>(45)</b>	<b>(330)</b>
At 30 June 2022	<b>540,743,633</b>	<b>5,407</b>	<b>39,467</b>

Notes:

- (i) During the six months ended 30 June 2021, 77,517 share options were exercised and as a result of 77,517 ordinary shares were issued. Approximately RMB5,000 and RMB592,000 were recorded as share capital and share premium, respectively. The Company repurchased 4,564,500 of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was RMB65,185,000.
- (ii) During the six months ended 30 June 2022, 19,825 share options were exercised and as a result of 19,825 ordinary shares were issued. Approximately RMB2,000 and RMB125,000 were recorded as share capital and share premium, respectively. The Company repurchased 4,521,500 of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was RMB68,453,000.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 23. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

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

	<b>Number of share options</b>
Outstanding as at 1 January 2021	<b>8,411,384</b>
Exercised during the year	<b>(456,792)</b>
Forfeited during the year	<b>(1,295,675)</b>
Outstanding as at 31 December 2021	<b>6,658,917</b>
Exercised during the period	<b>(19,825)</b>
Forfeited during the period	<b>(65,842)</b>
Outstanding as at 30 June 2022	<b>6,573,250</b>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD16.19 in the current interim period (year ended 31 December 2021: HKD18.86). The Group recognised the total expenses of RMB3,774,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB4,995,000) in relation to share options granted by the Company.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

(ii) Share award scheme by the Company

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

The Group recognised reversal of expenses of approximately RMB984,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: expenses of RMB1,650,000) in relation to the Award.

Movements in the share awards granted during the six months ended 30 June 2022 and the year ended 31 December 2021 are as follows:

#### Six months ended 30 June 2022

Name of category of participant	Date of grant	Outstanding	Granted	Awards	Forfeited	Outstanding
		at 1 January 2022		vested		at 30 June 2022
			during period	during period	during period	
Other employees	19 April 2018	148,080	-	(87,420)	(60,660)	-
Director	19 April 2018	218,160	-	(190,890)	(27,270)	-
		<u>366,240</u>	<u>-</u>	<u>(278,310)</u>	<u>(87,930)</u>	<u>-</u>

#### Year ended 31 December 2021

Name of category of participant	Date of grant	Outstanding	Granted	Awards	Forfeited	Outstanding
		at 1 January 2021		vested		at 31 December 2021
			during year	during year	during year	
Other employees	19 April 2018	340,320	-	(112,790)	(79,450)	148,080
Director	19 April 2018	436,320	-	(190,890)	(27,270)	218,160
Director	26 March 2021	-	120,000	(120,000)	-	-
		<u>776,640</u>	<u>120,000</u>	<u>(423,680)</u>	<u>(106,720)</u>	<u>366,240</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

(iii) Share awarded by a subsidiary of the Company

On 7 August 2012, a subsidiary of the Company adopted a share award scheme as amended on 13 February 2015 in which selected participants include senior management employees of the said subsidiary and/or its subsidiaries, consultants and any eligible persons.

The Group recognised the total expenses of approximately RMB13,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB28,000) in relation to this share award.

### 24. RELATED PARTY TRANSACTIONS

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

The Group had the following significant related party transactions during the period with certain companies in which some directors and shareholders of the Company can exercise significant influence or control:

<b>Name of related parties</b>	<b>Relationship</b>
Fuzhou 851	DJM, the immediate holding company of the Company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, has 100% equity interest in this entity.
iCloud Wisdom Technology Co., Ltd* ("iCloud Wisdom")	iCloud Wisdom is an associate of the Group which the Group holds 40% of the issued share capital in this entity.
Fujian Guoteng Information Technology Co., Ltd* ("Guoteng")	Guoteng is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.
Kunming NetDragon Eternity Technology Development Co., Ltd* ("Kunming Eternity")	Kunming Eternity is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.

\* For identification only.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

Nature of transactions	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Goods sold to Guoteng	(103)	(380)
Services fee received from Guoteng	(890)	–
Goods sold to Kunming Eternity	(465)	(1,033)
Services fee received from Kunming Eternity	(363)	–
Goods sold to iCloud Wisdom	(2,610)	(3,152)
Services fee received from iCloud Wisdom	(723)	–
Interest income on loan advanced to key management	(184)	(183)

Included in loan receivables as at 30 June 2022 was loan advanced to key management of approximately RMB6,776,000 (31 December 2021: RMB7,532,000), and the amounts are unsecured and repayable in whole on 31 August 2022 and 15 January 2023 (31 December 2021: repayable by instalments until 2022 or repayable in whole on 14 January 2022, 30 April 2022 and 31 August 2022) and carry interest rate of 5.00% (31 December 2021: 4.15% to 5.00 %) per annum.

### Compensation of key management personnel

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

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Salaries, allowances and other short-term employee benefits	62,648	37,153
Contribution to retirement benefits schemes	313	315
Share-based payments expense	2,612	8,927
	<b>65,573</b>	<b>46,395</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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### 25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000				
Equity instruments at FVTOCI	7,331	8,105	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI	50,000	–	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate.	Discount rate of 13.76% (31 December 2021: N/A).	The higher the discount rate, the lower the fair value.
Financial assets at FVTPL – Equity-linked warrants	1,414	1,852	Level 3	Valuation of financial assets at FVTPL: Binomial valuation model using key input: expected volatility.	Volatility 111.74% (31 December 2021: 90.20%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Financial assets at FVTPL – Unlisted funds	258,511	266,078	Level 2	Price provided by the financial institutions with reference to underlying investment portfolios which have observable quoted price in active markets.	N/A	N/A
Financial assets at FVTPL – Unlisted equity investments	81,122	–	Level 3	Price provided by the general partner with reference to underlying investment portfolios.	Discount for lack of marketability used in valuation.	The higher the discount for lack of marketability used in valuation, the lower the fair value.
Derivative financial instruments – Convertible and exchangeable option	–	–	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 60.37% (31 December 2021: 59.31%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Derivative financial instruments – Unlisted warrants	36,442	42,565	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 47.61% (31 December 2021: 48.95%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Convertible preferred shares	–	–	Level 3	Black-Scholes pricing model using key inputs: expected volatility.	Volatility 60.29% (31 December 2021: 59.45%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

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

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

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

#### Reconciliation of Level 3 fair value measurements

Reconciliation of Level 3 fair value measurements of financial assets:

	<b>Financial assets at FVTPL</b>	<b>Equity instruments at FVTOCI</b>
	RMB'000	RMB'000
At 1 January 2021 (audited)	3,723	–
Fair value loss	(872)	–
Exchange adjustments	69	–
	<u>2,920</u>	<u>–</u>
At 30 June 2021 (unaudited)	<u>2,920</u>	<u>–</u>
At 1 January 2022 (audited)	<b>1,852</b>	–
Additions	<b>101,943</b>	<b>50,000</b>
Fair value loss	<b>(26,709)</b>	–
Exchange adjustments	<b>5,450</b>	–
	<u><b>82,536</b></u>	<u><b>50,000</b></u>
At 30 June 2022 (unaudited)	<u><b>82,536</b></u>	<u><b>50,000</b></u>

Fair value loss on unlisted financial assets at FVTPL are included in 'net (loss) gain on financial assets at fair value through profit or loss'.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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

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

Reconciliation of Level 3 fair value measurements of financial liabilities:

	<b>Derivative financial instruments</b>	<b>Convertible preferred shares</b>
	RMB'000	RMB'000
At 1 January 2021 (audited)	40,894	–
Fair value loss	21,319	–
Exchange adjustments	(496)	–
	<u>61,717</u>	<u>–</u>
At 30 June 2021 (unaudited)	<u>61,717</u>	<u>–</u>
At 1 January 2022 (audited)	<b>42,565</b>	–
Fair value gain	<b>(7,851)</b>	–
Exchange adjustments	<b>1,728</b>	–
	<u><b>36,442</b></u>	<u><b>–</b></u>
At 30 June 2022 (unaudited)	<u><b>36,442</b></u>	<u><b>–</b></u>

Fair value gain (loss) on derivative financial instruments are included in 'fair value gain (loss) on derivative financial instruments'.

#### Fair value measurements and valuation process

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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

### 26. CAPITAL COMMITMENTS

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

	<b>30 June 2022 (Unaudited) RMB'000</b>	31 December 2021 (Audited) RMB'000
Capital expenditure in respect of the capital injection in joint ventures	<b>606,000</b>	606,000
Capital expenditure in respect of the acquisition of property, plant and equipment	<b>259,674</b>	278,328
Capital expenditure in respect of properties under development	<b>484,428</b>	544,329
	<b><u>1,350,102</u></b>	<u>1,428,657</u>