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NetDragon

NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) delivered a resilient performance with 11.8% revenue growth in a year of both opportunities and challenges. Our education business achieved record-high revenue of RMB4.3 billion with 34.2% YoY growth, as we continued to build on our global market leadership position with our commitment to providing educators the ability to transform learning and collaboration. In June 2022, we introduced our all-new ActivPanel 9 that deliver the most robust, seamless and secured user experience yet for teachers and students. During the year, we also took steps to expand our strategic partnerships and M&A initiatives to tap into concrete software monetization opportunities that will unleash the value of our global channel reach, as well as our largest installed base in the overseas market.

We are also excited to have announced that in June 2022, we entered into a strategic partnership with Merlyn Mind, a leader in education AI technology. We are currently building on this partnership to develop an artificial intelligence enabled interactive panel for classrooms, which we plan on launching in our next panel release. We believe this will be a one-of-a-kind product that will elevate our competitive position to a new level.

The gaming industry in China went through unprecedented challenges throughout 2022 as a result of a slowdown of the domestic economy due to the Covid-19 impact. However, a clearly defined go-to-market strategy and our unique gaming IP portfolio helped us to weather the storm. Although revenue of the gaming segment decreased by 5.8% YoY, such revenue performance outperformed the market as we remained laser focus on execution with operational excellence. Our overseas games continued to deliver exceptional performance with a YoY overseas revenue growth of 6.5%. We also substantially strengthened our R&D capability by adding over 300 R&D headcounts during the year, hence putting ourselves in a much stronger position to expand our pipeline of new games.

Last but not least, we continued to put shareholders’ capital return as a high priority. We are pleased to announce that the Board has approved our final dividend proposal of HKD0.40 per ordinary share. Total dividends for the year (including special interim dividend declared in August 2022) amounted to HKD1.30 per ordinary share, representing approximately 73.0% of the total profit attributable to the owners for the year.

Education Business

Revenue from education business reached a record high of RMB4.3 billion, representing a YoY increase of 34.2%, and accounting for approximately 55.1% of total revenue. Our flagship edtech subsidiary Promethean continued to outperform the market and maintain its global ex-China #1 market leadership position in terms of shipment volume. Total shipments of interactive flat panels reached a record-high of over 253,000 units, a YoY increase of 37.5%, as we delivered strong performance across all major markets, ranking #1 in market share in nine of our top ten markets, including the U.S., the U.K., Italy, and Australia. In addition to expanding penetration of its hardware installed base, Promethean continues to leverage its unique position of being the classroom edtech hub by stepping up efforts in pursuing strategic partnership and M&A opportunities with an aim to tap into concrete software monetization opportunities. The Company announced the acquisition of Explain Everything, a leading digital whiteboard platform in December 2022 for creating engaging lessons, activities, and interactive presentations. Through this strategic acquisition, Promethean is expected to add to its product portfolio a revenue-generating application tool that addresses one of the most common use cases of its customers. This acquisition will also support the development of new and better solutions that would address teaching, learning, and collaboration needs.

Our gross margin was impacted by various geopolitical and macro challenges during the year, more specifically with respect to tariffs and a lower GBP and Euro relative to USD. On an ex-tariff and forex-neutral basis, Promethean achieved an adjusted gross margin of 30.3%, which is a 2.4 ppt reduction from 32.7% in 2021 that is largely caused by the sell down of our existing ActivPanel 7 inventory since the launch of ActivPanel 9 in June, and a slightly higher unit material cost for ActivPanel 9 relative to the older model. It should also be noted that the new ActivPanel 9 had an Average Selling Price (ASP) that was 17.0% higher than the ASP of the existing ActivPanel 7 during the year, thanks to its positioning as a next-generation product that includes new features with enhanced simplicity, connectivity, security, adaptability and longevity.

We are also actively expanding our country model with a pipeline of countries in emerging markets. In Egypt, the Company secured an order of 94,000 Promethean panels from the Ministry of Education in the first quarter of 2022. In Thailand, the Company's paid pilot program entered its second phase with an expectation to enter commercial rollout later this year. In China, the Company continued to build on its partnership with the National Center for Education Technology, a unit directly under the Ministry of Education, in building and providing technical support for the National K-12 Smart Education Platform for primary and secondary schools. Such platform was launched in March 2022 with a huge success, amassing over 77 million registered users and 23 billion page views as of 23 March 2023. The monthly active users surpassed 10 million for every month after the launch.

We continued to enhance the cost structure of the education business during the year. Overall core segmental loss of the business for the year narrowed by 27.4% YoY to RMB299 million. Operating expenses as a percentage of revenue decreased by 11.3 ppts YoY, driven by effective cost control initiatives that will also lead to higher operating leverage going forward. Furthermore, despite 11.0% YoY reduction in full year R&D expense, the Company managed to step up its R&D effort in the second half of the year with an aim to expand its offerings into multiple new products due for launch in 2023, designed to broaden its penetration of the market and to bring user experience to a new level.

In 2022, market penetration of interactive flat panels reached a new high of 21% of global K12 classrooms, which in our view represents a critical scale that will enable future scaling of value-added subscription/SaaS-based applications. Looking forward, we believe that we are well-positioned to capture this future revenue stream, thanks to our market leadership in interactive flat panels and our installed base of 1.9 million classrooms. To that end, we announced in June 2022 that Promethean has entered in a strategic partnership with Merlyn Mind, the leader in education AI technology with classroom applications. We are currently building on this partnership to develop an artificial intelligence enabled interactive panel for classrooms, which we plan on launching in our next panel release. We believe the product will be one-of-a-kind product that will not only strengthen our competitive position in classroom technology, but also put us in a position to become a category dominant leader in a new product category.

Gaming Business

A slowdown of the domestic economy in China due to the Covid-19 impact has resulted in a revenue YoY decrease of 5.8% to RMB3.4 billion in 2022 for our gaming business. Mobile gaming revenue remained steady at RMB577 million, representing a modest decrease of 0.2% YoY, outperforming a domestic mobile game market decline of 14.4% YoY in 2022. *Eudemons Pocket Version* continued to deliver strong performance and achieved record-high gross billings, representing a YoY growth of 6.2%, largely a result of the change to a ROI-driven user acquisition strategy, as well as effective content and gameplay updates throughout the year. Our mobile gaming portfolio under the *Eudemons* IP on a combined basis achieved a steady revenue growth of 3.6% YoY. Meanwhile, PC gaming revenue was RMB2.8 billion, representing a 6.9% YoY decrease as we saw short-term impact from Covid-related economic slowdown on spending of our core players during the year in the domestic market. Despite the challenges, we stepped up our effort in making enhancements to the in-game spending mechanisms for our flagship game *Eudemons Online* to optimize our payers' base, resulting in a 28.4% YoY increase in APA for this game. Enhanced playability on the mobile platform also significantly drove user engagement and stickiness, leading to increase of DAU and ACU of *Eudemons Online* cross-platform version by 26.1% and 36.4% YoY, respectively.

Our overseas gaming business continued to deliver strong performance with revenue of RMB540 million, a YoY increase of 6.5%, a growth rate that outperformed the market. Overseas gaming revenue as a percentage of total gaming revenue also increased consecutively for 5 years to 15.7% in 2022. Our *Conquer* IP was the main driver for the growth in 2022 with 48.5% overseas revenue increase YoY to RMB188 million, with the growth mainly driven by solid execution along with easing pandemic controls and market recovery in the Middle East. Meanwhile, we continued to replicate our successful business model in Egypt to new markets including Saudi Arabia, Kuwait, Morocco, the Philippines, the U.S and Canada. New language versions were launched in Filipino, Turkish and Russian during the year. We also continued to make progress in expanding the overseas market presence of our *Heroes Evolved* IP. In July, the Company launched the Vietnamese pocket version under the *Heroes Evolved* IP, labelled *Loan Chien Mobile*, hailed by local gaming media as the new giant of Vietnamese e-sports. In August 2022, the Company signed an exclusive licensing agreement with a renowned global publisher for AAA games to co-launch *Under Oath* in major international markets starting in Japan in 2023. *Neopets: Faerie's Hope*, the Company's first match-three game, was launched in the U.S., Canada, the U.K., Germany and France in December 2022, which saw its next-day retention rate and three-day retention rate in the top 5-10% of titles in the same genre. Our flagship metaverse Web 3.0 game *Neopets Metaverse* also hit another major milestone in January 2023 by completing a USD4 million financing round with participation from industry leaders including Polygon Ventures, Blizzard Avalanche Ecosystem Fund, Hashkey Capital and IDG Capital. *Neopets Metaverse* is expected to launch its initial metaverse offering (IMO) in later this year.

Our plan in 2023 will be to significantly expand our pipeline of new games, in conjunction with driving revenue growth for our existing games. During 2022, we stepped up our investment in R&D to put ourselves in a stronger position to capitalize on the market rebound anticipated for 2023, as we saw our gaming R&D expense increased by 16.7% YoY to RMB768 million, accounting for 22.4% of gaming revenue. Our R&D headcounts increased by over 300 in 2022, hence significantly strengthening our development competencies and resulting in an increase of both the quality and quantity of our pipeline of new games. We are expecting a total of 5 new games under the *Eudemons* IP to be launched in 2023 and 2024, the first of which is *Eudemons Mobile II*, which was successfully launched in March 2023. We also have new games in the pipeline under our *Under Oath* and *Heroes Evolved* IP, as well as new IPs to be announced. Last but not least, we expect to actively explore acquisition opportunities in order to further expand our market reach and core competencies.

Fiscal Year 2022 Financial Highlights

- Revenue was RMB7.9 billion, representing an 11.8% increase YoY.
- Revenue from the games business was RMB3.4 billion, representing 43.6% of the Group's total revenue and a 5.8% decrease YoY.
- Revenue from the education business was RMB4.3 billion, representing 55.1% of the Group's total revenue and a 34.2% increase YoY.
- Gross profit was RMB4.3 billion, representing a 4.6% decrease YoY.
- Core segmental profit¹ from the games business was RMB1.8 billion, representing a 14.1% decrease YoY.
- Core segmental loss¹ from the education business was RMB299 million, representing a 27.4% improvement YoY.
- EBITDA was RMB1.5 billion, representing a 20.7% decrease YoY.
- Operating profit was RMB1.2 billion, representing a 17.0% decrease YoY.
- Non-GAAP operating profit² was RMB1.3 billion, representing a 12.7% decrease YoY.
- Profit attributable to owners of the Company was RMB834 million, representing a 21.5% decrease YoY.
- Non-GAAP profit attributable to owners of the Company² was RMB1.3 billion, representing a 2.2% decrease YoY.
- Operating cashflow was RMB1.1 billion, representing a 4.2% increase YoY.
- The Company declared a final dividend of HKD0.40 per ordinary share (2021: HKD0.40 per ordinary share), subject to approval at the coming annual general meeting.

Segmental Financial Highlights

(RMB million)	FY2022		FY2021		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	3,430	4,336	3,642	3,231	-5.8%	34.2%
Gross profit	3,280	1,007	3,474	995	-5.6%	1.2%
Gross margin	95.6%	23.2%	95.4%	30.8%	0.2%	-7.6%
Core segmental profit (loss) ¹	1,821	(299)	2,120	(412)	-14.1%	-27.4%
Segmental operating expenses ³						
– Research and development	(768)	(446)	(658)	(501)	16.7%	-11.0%
– Selling and marketing	(398)	(532)	(419)	(530)	-5.0%	0.4%
– Administrative	(292)	(387)	(318)	(351)	-8.2%	10.3%

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, goodwill 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, write off of intangible assets 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, goodwill and interest in an associate, fair value change on financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, interest income on pledged bank deposits and exchange difference on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments.

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

RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the audited consolidated financial results of the Group for the year ended 31 December 2022 together with the comparative figures in 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>NOTES</i>	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Revenue	4	7,866	7,036
Cost of revenue		(3,551)	(2,513)
Gross profit		4,315	4,523
Other income and gains		223	224
Impairment loss under expected credit loss model, net of reversal		(14)	(8)
Selling and marketing expenses		(945)	(956)
Administrative expenses		(975)	(956)
Research and development costs		(1,224)	(1,160)
Other expenses and losses		(213)	(266)
Share of results of associates and joint ventures		(17)	(16)
Operating profit		1,150	1,385
Interest income on pledged bank deposits		–	1
Exchange (loss) gain on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments		(73)	19
Fair value change on financial assets at fair value through profit or loss		(33)	20
Fair value change on derivative financial instruments		15	(3)
Finance costs		(219)	(186)
Profit before taxation		840	1,236
Taxation	5	(76)	(253)
Profit for the year		764	983

	2022	2021
<i>NOTE</i>	<i>RMB million</i>	<i>RMB million</i>
Other comprehensive income (expense) for the year, net of income tax:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	47	(25)
Item that will not be reclassified to profit or loss:		
Fair value change on equity instruments at fair value through other comprehensive income	<u>(2)</u>	<u>(2)</u>
Other comprehensive income (expense) for the year	<u>45</u>	<u>(27)</u>
Total comprehensive income for the year	<u>809</u>	<u>956</u>
Profit (loss) for the year attributable to:		
– Owners of the Company	834	1,062
– Non-controlling interests	<u>(70)</u>	<u>(79)</u>
	<u>764</u>	<u>983</u>
Total comprehensive income (expense) for the year attributable to:		
– Owners of the Company	879	1,036
– Non-controlling interests	<u>(70)</u>	<u>(80)</u>
	<u>809</u>	<u>956</u>
	<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share	7	
– Basic	154.15	191.67
– Diluted	<u>154.14</u>	<u>191.58</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022**

	2022	2021
<i>NOTE</i>	<i>RMB million</i>	<i>RMB million</i>
Non-current assets		
Property, plant and equipment	1,936	1,940
Deposits made for acquisition of property, plant and equipment	5	5
Right-of-use assets	380	428
Investment properties	59	77
Goodwill	287	217
Intangible assets	739	772
Interests in associates and joint ventures	34	50
Equity instruments at fair value through other comprehensive income	56	8
Financial assets at fair value through profit or loss	404	266
Loan receivables	8	8
Other receivables, prepayments and deposits	89	38
Deferred tax assets	347	135
	<u>4,344</u>	<u>3,944</u>
Current assets		
Properties under development	343	317
Properties for sale	303	205
Inventories	807	685
Financial assets at fair value through profit or loss	84	2
Loan receivables	4	22
Trade receivables	654	832
Other receivables, prepayments and deposits	549	494
Amounts due from joint ventures	5	3
Tax recoverable	29	25
Restricted bank balance and pledged bank deposits	1	9
Bank deposits with original maturity over three months	207	630
Cash and cash equivalents	3,701	3,717
	<u>6,687</u>	<u>6,941</u>

		2022	2021
	<i>NOTES</i>	<i>RMB million</i>	<i>RMB million</i>
Current liabilities			
Trade and other payables	9	1,513	1,455
Contract liabilities		406	357
Lease liabilities		67	64
Provisions		94	89
Derivative financial instruments		31	43
Bank borrowings	10	737	403
Convertible and exchangeable bonds	11	16	15
Tax payable		100	128
		<u>2,964</u>	<u>2,554</u>
Net current assets		<u>3,723</u>	<u>4,387</u>
Total assets less current liabilities		<u>8,067</u>	<u>8,331</u>
Non-current liabilities			
Other payables	9	19	11
Lease liabilities		50	95
Bank borrowings	10	2	–
Convertible and exchangeable bonds	11	1,317	1,070
Convertible preferred shares		–	–
Deferred tax liabilities		80	80
		<u>1,468</u>	<u>1,256</u>
Net assets		<u><u>6,599</u></u>	<u><u>7,075</u></u>
Capital and reserves			
Share capital		40	40
Share premium and reserves		6,859	7,275
		<u>6,899</u>	<u>7,315</u>
Equity attributable to owners of the Company		6,899	7,315
Non-controlling interests		(300)	(240)
		<u><u>6,599</u></u>	<u><u>7,075</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
NET CASH FROM OPERATING ACTIVITIES	1,070	1,027
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(165)	(138)
Purchase of intangible assets	(129)	(293)
Placement of bank deposits with original maturity over three months	(275)	(730)
Withdrawal of bank deposits with original maturity over three months	702	133
Deposits made for acquisition of property, plant and equipment	(4)	(6)
Investments in associates	(1)	(23)
Advance to a joint venture	(2)	(2)
Cash outflow on acquisition of operation through business combination	(34)	–
Net cash outflow on disposal of a subsidiary	(3)	–
Placement of restricted bank balance	–	(8)
Withdrawal of restricted bank balance and pledged bank deposits	8	147
Interest received	44	44
Repayment of loan receivables	19	2
Proceeds from disposal of property, plant and equipment	2	2
Purchase of financial assets at fair value through profit or loss	(11,767)	(6,957)
Proceeds from disposal of financial assets at fair value through profit or loss	11,549	6,990
Purchase of equity instruments at fair value through other comprehensive income	(50)	–
NET CASH USED IN INVESTING ACTIVITIES	(106)	(839)

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
FINANCING ACTIVITIES		
New bank borrowings raised	878	411
Proceeds from shares issued upon exercise of share options	–	5
Repayment of bank borrowings	(537)	(344)
Dividends paid	(1,225)	(302)
Repayment of lease liabilities	(69)	(65)
Payment for repurchase and cancellation of shares	(68)	(242)
Acquisitions of additional equity interests from non-controlling interests	(10)	(7)
Contribution from non-controlling interests of a subsidiary	12	–
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(1,019)	(544)
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(55)	(356)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	3,717	4,114
	<hr/>	<hr/>
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	39	(41)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	3,701	3,717
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL INFORMATION

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

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

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company. The units of presentation of the consolidated financial statements have been changed from thousand to million in the current year. The directors of the Company consider this presentation to be more understandable while does not omit material information.

2. BASIS OF PREPARATION

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

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

3. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the 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 year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and Amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1	Non-current Liabilities with Covenants ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

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

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

The Group is still in the process of assessing the full impact of application of the Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”. Except for the Amendments to HKAS 12, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND SEGMENT INFORMATION

	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Disaggregation of revenue from contracts with customers		
Online and mobile games revenue	3,430	3,642
Education revenue (including sales of education equipment and related goods and educational services)	4,336	3,231
Mobile solution, products and marketing revenue	84	87
Property project revenue	16	76
	<u>7,866</u>	<u>7,036</u>

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:

For the year ended 31 December 2022

	Online and mobile games <i>RMB million</i>	Education <i>RMB million</i>	Mobile solution, products and marketing <i>RMB million</i>	Property project <i>RMB million</i>	Total <i>RMB million</i>
Segment revenue	<u>3,430</u>	<u>4,336</u>	<u>84</u>	<u>16</u>	<u>7,866</u>
Segment profit (loss)	<u>1,963</u>	<u>(790)</u>	<u>(7)</u>	<u>(7)</u>	1,159
Unallocated other income and gains					45
Unallocated corporate expenses and losses					<u>(364)</u>
Profit before taxation					<u>840</u>

For the year ended 31 December 2021

	Online and mobile games <i>RMB million</i>	Education <i>RMB million</i>	Mobile solution, products and marketing <i>RMB million</i>	Property project <i>RMB million</i>	Total <i>RMB million</i>
Segment revenue	<u>3,642</u>	<u>3,231</u>	<u>87</u>	<u>76</u>	<u>7,036</u>
Segment profit (loss)	<u>2,240</u>	<u>(710)</u>	<u>(3)</u>	<u>12</u>	1,539
Unallocated other income and gains					62
Unallocated corporate expenses and losses					<u>(365)</u>
Profit before taxation					<u>1,236</u>

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

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

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

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

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Online and mobile games	5,082	5,428
Education	4,517	4,296
Mobile solution, products and marketing	68	76
Property project	<u>704</u>	<u>594</u>
Total segment assets	10,371	10,394
Unallocated	<u>660</u>	<u>491</u>
	<u>11,031</u>	<u>10,885</u>

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

5. TAXATION

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
The tax charge (credit) comprises:		
Hong Kong Profits Tax		
– Current year	55	57
– Over provision in prior years	<u>–</u>	<u>(1)</u>
	55	56
PRC Enterprise Income Tax		
– Current year	225	224
– Under provision in prior years	<u>3</u>	<u>38</u>
	228	262
Taxation in other jurisdictions		
– Current year	6	35
– Under provision in prior years	<u>–</u>	<u>1</u>
	6	36
Deferred taxation		
– Current year	(26)	9
– Net recognition of unused tax losses in prior years	<u>(187)</u>	<u>(110)</u>
	(213)	(101)
	<u>76</u>	<u>253</u>

6. DIVIDENDS

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Dividends recognised as distribution during the year:		
2021 Final – Hong Kong dollar (“HKD”) 0.40 (2021: 2020 Final – HKD0.25) per share	177	117
2021 Special interim – HKD1.43 and 2022 special interim – HKD0.50 (2021: 2020 Special interim – nil) per share	863	–
2022 Interim – HKD0.40 (2021: 2021 Interim – HKD0.40) per share	185	185
	<u>1,225</u>	<u>302</u>

The 2022 final dividend of HKD0.40 (2021: HKD0.40) per share which has been proposed by the directors in the board meeting on 27 March 2023 and is subject to approval by the shareholders in the forthcoming annual general meeting, amounted to approximately RMB193 million (2021: RMB179 million).

7. 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:

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Earnings for the purpose of basic and diluted earnings per share:		
– Profit for the year attributable to the owners of the Company	<u>834</u>	<u>1,062</u>
	Number of shares	
	2022	2021
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	540,694	554,115
Effect of dilutive potential shares from the Company’s share option scheme	<u>27</u>	<u>259</u>
Weighted average 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)	<u>540,721</u>	<u>554,374</u>

8. TRADE RECEIVABLES

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Trade receivables	690	858
Less: Allowance of credit losses	(36)	(26)
	654	832

As at 1 January 2021, trade receivables from contracts with customers amounted to RMB525 million.

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.

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Trade debtors		
0 – 30 days	334	375
31 – 60 days	183	264
61 – 90 days	66	107
Over 90 days	71	86
	654	832

9. TRADE AND OTHER PAYABLES

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Trade payables	680	681
Accrued staff costs	358	332
Government grants	20	25
Other tax payables	34	28
Payables for purchase of property, plant and equipment	128	105
Consideration payables	29	6
Accrued expenses	65	156
Others	218	133
	1,532	1,466
Analysed for financial reporting purpose:		
Current	1,513	1,455
Non-current	19	11
	1,532	1,466

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

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
0 – 90 days	301	614
91 – 180 days	300	7
181 – 365 days	24	5
Over 365 days	55	55
	<hr/> 680 <hr/>	<hr/> 681 <hr/>

10. BANK BORROWINGS

The carrying amounts of the bank borrowings are repayable*:

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
Within one year	696	365
Within a period of more than one year but not exceeding two years	1	–
Within a period of more than two years but within five years	1	–
	<hr/> 698 <hr/>	<hr/> 365 <hr/>
The carrying amounts of bank borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable within one year	<hr/> 41 <hr/>	<hr/> 38 <hr/>
	739	403
Less: Amounts due within one year shown under current liabilities	<hr/> (737) <hr/>	<hr/> (403) <hr/>
Amounts shown under non-current liabilities	<hr/> 2 <hr/>	<hr/> – <hr/>

* The amounts due are based on scheduled repayment dates.

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

	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Variable-rate borrowings	376	192
Fixed-rate borrowings	363	211
	739	403
Secured	736	369
Unsecured	3	34
	739	403

As at 31 December 2022, the borrowings were secured by pledge of certain properties and right-of-use assets of the Group, personal guarantee provided by a director of the Company, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries (2021: pledge of certain properties and right-of-use assets of the Group, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries).

11. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, Best Assistant Education Online Limited (“Best Assistant”), an indirect non-wholly owned subsidiary of the Company, issued convertible and exchangeable bonds with an aggregate principal amount of USD150 million (equivalent to RMB1,039 million) to Nurture Education (Cayman) Limited (the “CEB Investor”). Simultaneously, the Company issued unlisted warrants to the CEB Investor in March 2020. The warrants shall entitle the CEB Investor to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds bear interest accruing at a rate of 5% per annum on the aggregate principal amount of the convertible and exchangeable bonds and will be due on the fifth anniversary from the bond issue date (“Maturity Date”). The convertible and exchangeable bonds are denominated in USD.

Convertible and exchangeable option

The convertible and exchangeable bonds are exercisable at the option of bondholders, in whole or in part and can either be (i) convertible into ordinary shares of Best Assistant at an initial conversion price of USD0.5367 per conversion share at any time and from time to time during the period from the conversion period; or (ii) exchangeable for ordinary shares of Promethean, a wholly-owned subsidiary of Best Assistant and an indirect non-wholly owned subsidiary of the Company, at an initial exchange price of USD2.2146 per exchange share at any time and from time to time during the exchange period, in the event that Promethean pursues a qualified initial public offering which refers to a firmly underwritten initial public offering of ordinary shares of Promethean on an internationally recognised exchange with a minimum net proceeds and market capitalisation as set out in the terms and conditions of the convertible and exchangeable bonds. At initial recognition, the convertible and exchangeable option was classified as derivative financial instrument. The fair value of the convertible and exchangeable option was insignificant and the carrying amount is recognised as nil at initial recognition and at 31 December 2022 and 31 December 2021.

Warrants

Simultaneously with the issue of the convertible and exchangeable bonds, the Company issued to the CEB Investor the warrants with a subscription price of HKD18.8698 per share. The warrants are allotted to subscribe at any time and from time to time during the issue date to Maturity Date for up to 11,502,220 shares. At initial recognition, the warrants were classified as derivative financial instrument at a fair value of RMB87 million.

Redemption

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

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

	2022 <i>RMB million</i>	2021 <i>RMB million</i>
At 1 January	1,085	992
Interest accrued	194	165
Settlement of interest	(50)	(48)
Exchange adjustments	104	(24)
	1,333	1,085
Less: Interest payable within one year (shown under current liabilities)	(16)	(15)
Amount shown under non-current liabilities	1,317	1,070

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2022, the Group had restricted bank balance and pledged bank deposits, bank deposits with original maturity over three months and cash and cash equivalents of approximately RMB3,909 million (31 December 2021: RMB4,356 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.11 (31 December 2021: 0.06). As at 31 December 2022, total bank borrowings of the Group amounted to approximately RMB739 million (31 December 2021: RMB403 million) which included variable-rate loan of RMB376 million (31 December 2021: RMB192 million) and fixed-rate loan of RMB363 million (31 December 2021: RMB211 million). The bank borrowings of RMB736 million (31 December 2021: RMB369 million) were secured by pledge of certain properties and right-of-use assets of the Group, personal guarantee provided by a director of the Company and corporate guarantee provided by the Company and its subsidiaries and the remaining bank borrowings of RMB3 million (31 December 2021: RMB34 million) were unsecured.

As at 31 December 2022, the Group had net current assets of approximately RMB3,723 million as compared with approximately RMB4,387 million as at 31 December 2021.

STAFF INFORMATION

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

	At 31 December 2022	At 30 June 2022	At 31 December 2021
Research and development	2,960	2,699	2,605
Selling and marketing	961	1,008	1,107
Accounting, finance and general administration	952	835	889
Production	262	242	233
Total	<u>5,135</u>	<u>4,784</u>	<u>4,834</u>

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

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	250,822,457 (L)	46.38%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	5,419,040 (L)	1.00%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	250,822,457 (L)	46.38%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	250,822,457 (L)	46.38%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Chen Hongzhan (Note 5)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.07%
Lee Kwan Hung, Eddie (Note 6)	The Company	Beneficial owner	583,019 (L)	0.11%
Liu Sai Keung, Thomas (Note 7)	The Company	Beneficial owner	818,019 (L)	0.15%
Sing Chung Matthias Li (Note 8)	The Company	Beneficial owner	2,000 (L)	0.00%

Notes:

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 35.34% of the issued voting shares of the Company. Liu Dejian is also interested in 0.38% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

Liu Luyuan is interested in 4.30% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 21,541,819 shares, and the rest being beneficial interest of 1,684,000 shares.

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

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 46.38% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Luyuan and Zheng Hui are interested in 0.07% and 99.89%, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”) respectively. Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).
4. Leung Lim Kin, Simon is interested in 1.00% of the issued voting shares of the Company which is represented by beneficial interest of 1,419,040 shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.
5. Chen Hongzhan is interested in 2.07% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. Lee Kwan Hung, Eddie is interested in 0.11% of the issued voting shares of the Company which is represented by personal interest of 65,019 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.
7. 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.
8. Sing Chung Matthias Li is interested in 0.00% of the issued voting shares of the Company which is represented by beneficial interest of 2,000 shares.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2022, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 31 December 2022, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	35.34%
IDG Group (Note 2)	The Company	Beneficial owner	53,533,320 (L)	9.90%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	53,533,320 (L)	9.90%
Zhou Quan (Note 2)	The Company	Through controlled corporations	50,470,735 (L)	9.33%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.01%, 6.08%, 1.24% and 0.57% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investors Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2022.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the “**2018 Share Option Scheme**”) to replace the existing share option scheme which expired on 12 June 2018 (the “**2008 Share Option Scheme**”). Details of the share options outstanding and movement during the year ended 31 December 2022 are as follows:

2008 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options			As at	
			1 January 2022	Granted	Exercised	Cancelled	Lapsed	31 December 2022
Independent non-executive Directors								
Lee Kwan Hung, Eddie	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	04.12.2013	15.72	318,000	-	-	-	-	318,000
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Others								
Employees	23.04.2012	5.74	85,667	-	19,825	-	65,842	-
	12.09.2012	7.20	50,250	-	-	-	50,250	-
	16.01.2013	11.164	48,500	-	-	-	-	48,500
	04.12.2013	15.72	238,500	-	-	-	-	238,500
	31.03.2017	23.65	100,000	-	-	-	-	100,000
Total			<u>1,358,917</u>	<u>-</u>	<u>19,825</u>	<u>-</u>	<u>116,092</u>	<u>1,223,000</u>

2018 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options			As at	
			1 January 2022	Granted	Exercised	Cancelled	Lapsed	31 December 2022
Executive Directors								
Leung Lim Kin, Simon	24.01.2020	21.07	4,000,000	-	-	-	-	4,000,000
Independent non-executive Directors								
Lee Kwan Hung, Eddie	24.01.2020	21.07	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	24.01.2020	21.07	100,000	-	-	-	-	100,000
Others								
Employees	24.01.2020	21.07	1,100,000	-	-	-	-	1,100,000
Total			<u>5,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,300,000</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 38 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.

SHARE AWARD SCHEME

The Company

The Board approved and adopted the share award scheme (the “**NetDragon Share Award Scheme**”) on 2 September 2008 to recognise the contributions of certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group 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 10 years commencing on 31 August 2018. The Board shall not grant any award of shares if the nominal value of awards in aggregate granted by the Board under the NetDragon Share Award Scheme is over 10% of the issued capital of the Company from time to time.

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

Details of the shares awarded under the NetDragon Share Award Scheme during the year ended 31 December 2022 are as follows:

Grantee	Date of grant	Average price per share (HKD) (Note)	Outstanding at 1 January 2022	Granted during period	Awards vested during period	Forfeited during period	Outstanding at 31 December 2022	Vesting period
Executive Directors								
Leung Lim Kin, Simon	19 April 2018	18.96	218,160	-	190,890	27,270	-	30 April 2018 – 30 April 2022
Others								
Employees	19 April 2018	18.96	148,080	-	87,420	60,660	-	30 April 2018 – 30 April 2022
			366,240	-	278,310	87,930	-	
			366,240	-	278,310	87,930	-	

Notes:

1. These shares were purchased by the Trustee of the Share Award Scheme at an average price of HKD18.96 per share.
2. In 2022, the weighted average closing price of the shares immediately before the vesting date of the awarded shares was HK\$15.12.

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”)

Best Assistant approved and adopted the share award scheme (the “**Best Assistant Share Award Scheme**”) on 7 August 2012 and it was amended by the resolution passed on 5 August 2022 to extend a period of 10 years, 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 5 August 2022. Best Assistant may also transfer shares awarded under the Best Assistant Share Award Scheme whether vested or unvested to other trusts and if there is a change in control of Best Assistant, all awarded shares shall immediately be vested. The board of directors of Best Assistant may also waive any vesting conditions with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha. The maximum number of shares which may be granted to the participants under the Best Assistant Share Award Scheme shall not exceed ten percent (10%) of the total issued share capital of Best Assistant from time to time or such number of shares as determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

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

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

As at 31 December 2022, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into a subscription agreement (“**Series A Agreement**”) with IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (together referred to as “**IDG Investors**”), Vertex Legacy Continuation Fund Pte Ltd. (formerly held by Vertex Asia Fund Pte. Ltd.) (“**Vertex**”), Hong Kong Alpha Group Limited (“**Alpha**”), Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. (“**NetDragon BVI**”), a direct wholly owned subsidiary of the Company (collectively referred to as “**Series A Investors**”) for the allotment and issue of an aggregate of 180,914,513 Series A preferred Shares (“**Series A Preferred Shares**”) for a total consideration of USD52.5 million (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 90.50% to approximately 83.61%.

As at 31 December 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 USD137.5 million, 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 million and (ii) the issue of 112,560,245 Best Assistant Series B Shares.

As at 31 December 2022, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

ISSUE OF SECURED CONVERTIBLE AND EXCHANGEABLE BONDS BY BEST ASSISTANT AND ISSUE OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

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

Closing of the Purchase Agreement took place on 9 March 2020, and Best Assistant has issued to the Investor, Convertible and Exchangeable Bonds which can be converted to 279,510,479 ordinary shares of Best Assistant, representing 11.16% of the total outstanding share capital of Best Assistant on a fully diluted and as-converted basis, and the Company has issued the unlisted Warrant to the Investor which can be converted to 11,502,220 Warrant Shares of the Company. As a result of the payment of the Company’s dividend and pursuant to the relevant warrant instrument, the subscription price of the relevant warrant instrument is adjusted from HKD21.1998 to HKD19.6698 on 28 February 2022, and further adjusted to HKD18.8698 on 31 October 2022. The net proceeds raised from the issuance of Convertible and Exchangeable Bonds and warrants were also applied and fully utilized as intended.

As at 31 December 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.

Completion of the Top-up Placing took place on 17 February 2020 and the Top-up Subscription took place on 25 February 2020. A total of 33,000,000 Top-up Placing Shares have been successfully placed to not less than six places and the 33,000,000 Top-up Subscription Shares had been allotted and issued to 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.

All net proceeds from the Top-up Placing and Subscription have been utilised in 2021 as intended for funding the expansion of education business.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the year ended 31 December 2022.

FINAL DIVIDEND

At the Board meeting held on Monday, 27 March 2023, it was proposed that a final dividend of HKD0.40 per share for the year ended 31 December 2022, amounting to approximately RMB193 million be paid on or before Friday, 7 July 2023 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Thursday, 8 June 2023. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (the "2023 AGM") to be held on Thursday, 1 June 2023.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2023 AGM

The Company's register of members will be closed from Monday, 29 May 2023 to Thursday, 1 June 2023, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the AGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on Thursday, 25 May 2023 for registration of the relevant transfer.

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

The Board has recommended the payment of a final dividend of HKD0.40 per share for the year ended 31 December 2022 to shareholders whose names appear on the register of members of the Company on Thursday, 8 June 2023 subject to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 8 June 2023 to Friday, 9 June 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 7 June 2023.

PUBLICATION OF FINAL RESULTS AND 2021 ANNUAL REPORT

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

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Thursday, 1 June 2023. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board of Directors on 27 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

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

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

Our Audit Committee comprises three independent non-executive Directors, namely Sing Chung Matthias Li, Lee Kwan Hung, Eddie and Liu Sai Keung, Thomas. Sing Chung Matthias Li is the chairman of the Audit Committee.

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

During the year ended 31 December 2022, the Company bought back a total of 3,221,500 shares on the Stock Exchange at an aggregate consideration of HKD59.5 million before expenses. All such shares were subsequently cancelled in February 2022. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Details of the share buy-backs are as follows:

Month of purchase	Number of ordinary shares bought back	Price per share		Aggregate consideration paid HKD million
		Highest HKD	Lowest HKD	
January 2022	3,221,500	19.96	17.72	59.5

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2022.

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

Hong Kong, 27 March 2023

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