



# 2024 INTERIM REPORT

網龍網絡控股有限公司

NETDRAGON WEBSOFT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 777



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# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) FINANCIAL HIGHLIGHTS AND REVIEW

### 2024 First Half Financial Highlights

- Revenue was RMB3.30 billion, representing a 10.3% decrease YoY.
- Revenue from the gaming and application services was RMB2.12 billion, representing 64.3% of the Group's total revenue and a 0.8% decrease YoY.
- Revenue from Mynd.ai was RMB1.18 billion, representing 35.7% of the Group's total revenue and a 23.5% decrease YoY.
- Gross profit was RMB2.20 billion, representing a 3.8% decrease YoY.
- Core segmental profit<sup>1</sup> from the gaming and application services was RMB688 million, representing an 11.5% decrease YoY.
- Core segmental loss<sup>1</sup> from Mynd.ai was RMB111 million, representing an 131.3% increase YoY.
- Operating profit was RMB634 million, representing a 9.3% decrease YoY.
- Non-GAAP operating profit<sup>2</sup> was RMB640 million, representing a 7.5% decrease YoY.
- EBITDA was RMB1.04 billion, representing a 12.9% increase YoY.
- Non-GAAP EBITDA<sup>2</sup> was RMB1.15 billion, representing a 33.1% increase YoY.
- Profit attributable to owners of the Company was RMB400 million, representing a 20.0% decrease YoY.
- Non-GAAP profit attributable to owners of the Company<sup>2</sup> was RMB558 million, representing a 5.3% decrease YoY.
- The Company declared an interim dividend of HKD0.40 per ordinary share for the six months ended 30 June 2024.



# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Segmental Financial Highlights

(RMB million)	2024 First Half		2023 First Half	
	Gaming and application services	Mynd.ai	Gaming and application services (Restated)	Mynd.ai (Restated)
Revenue	2,121	1,180	2,139	1,542
Gross profit	1,849	351	1,896	392
Gross margin	87.2%	29.7%	88.6%	25.4%
Core segmental profit (loss) <sup>1</sup>	688	(111)	777	(48)
Segmental operating expenses <sup>3</sup>				
– Research and development	(595)	(101)	(542)	(99)
– Selling and marketing	(210)	(139)	(240)	(187)
– Administrative	(324)	(200)	(361)	(145)

*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, impairment loss (net of reversal), fair value change and exchange gain on financial assets at fair value through profit or loss ("FVTPL"), fair value change and exchange loss on derivative financial instruments, interest expense and exchange loss on convertible and exchangeable bonds and convertible note, redundancy payments, legal and professional fees for spin-off and reversal of impairment loss of intangible assets.

*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, write-down of inventories, fair value change on investment properties, fair value change on financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, deferred tax, reversal of impairment loss of intangible assets, gain on disposal of intangible assets and exchange difference on pledged bank deposits, financial assets at FVTPL, convertible and exchangeable bonds and derivative financial instruments.

*Note 3:* Segmental operating expenses exclude unallocated expenses/income such as directors' fee and salaries, 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

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

Unaudited Reconciliation of GAAP and Non-GAAP Results

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB million</b>	RMB million
<b>Operating profit</b>	<b>634</b>	699
Gain on disposal of intangible assets	<b>(51)</b>	–
Amortisation of intangible assets arising on acquisitions of subsidiaries	<b>36</b>	30
Fair value change in investment properties	<b>13</b>	–
Share-based payments expense	<b>8</b>	2
Reversal of impairment loss of intangible assets	<b>–</b>	(43)
Write-down of inventories	<b>–</b>	4
	<b>640</b>	692
<b>Non-GAAP operating profit</b>	<b>640</b>	692
<b>Profit attributable to owners of the Company</b>	<b>400</b>	500
Fair value change on financial assets at fair value through profit or loss	<b>(77)</b>	(35)
Fair value change on derivative financial instruments	<b>(53)</b>	(15)
Gain on disposal of intangible assets	<b>(51)</b>	–
Exchange (gain) loss on pledged bank deposits, financial assets at fair value through profit or loss, convertible and exchangeable bonds and derivative financial instruments	<b>(2)</b>	30
Deferred tax	<b>219</b>	–
Finance costs	<b>71</b>	122
Amortisation of intangible assets arising on acquisitions of subsidiaries	<b>32</b>	24
Fair value change in investment properties	<b>13</b>	–
Share-based payments expense	<b>6</b>	2
Reversal of impairment loss of intangible assets	<b>–</b>	(43)
Write-down of inventories	<b>–</b>	4
	<b>558</b>	589
<b>Non-GAAP profit attributable to owners of the Company</b>	<b>558</b>	589

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) BUSINESS REVIEW AND OUTLOOK

In the first half of the year, NetDragon Websoft Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) delivered results that demonstrate both our resilience in the face of short-term challenges and our focus in building products to strengthen our competitive position and drive long-term growth. Our domestic PC gaming business delivered revenue of RMB1.36 billion, an increase of 2.1% YoY driven by our focus in driving engagement and retention of players. We believe as players’ spending habits are clearly trending towards games with high quality contents and highly acclaimed IP, our iconic and non-replicable flagship IPs, together with our business model of building high quality games around these IPs, put us in a great position to differentiate and drive sustainable growth. With that being said, our overall gaming revenue in the first half was affected by our overseas revenue which declined by 12.9% YoY due to short-term temporary issues, and we are confident to emerge in the second half with a stronger performance. Our confidence stems from the fact that the execution of our growth strategy remains on track with many positive news to share. Our new game *Code-Alpha* is expected to be launched in the second half and will be expanding into several countries. We also received encouraging metrics from our testing of *Under Oath Overseas Version* which puts us on track to launch this new ACGN game in the Japanese market within the next 6 to 9 months. In addition, we have received very positive players’ feedback for our new roguelike top-down shoot game *Nebula Rangers* that featured a second place on the TapTap platform’s ranking of new games, coupled with a user score of 8.0. We expect this game to launch globally in 2025 and has the potential to become a new major title with high Daily Active Users (“**DAU**”).

Turning to our education business, our overseas education subsidiary, Mynd.ai, Inc. (“**Mynd.ai**”), continued to go through a stage of industry transformation that presents both challenges and opportunities. On the one hand, we continued to see softening hardware shipment as education authorities are still reacting to a broad normalization of budgets post-Covid, and from a macro standpoint, inflation also played a role in affecting budget allocation decisions of schools. On the other hand, we believe the market is in a very early stage of transitioning from a hardware-centric model to an integrated software and service-based model, which presents a transformational opportunity, especially for Mynd.ai as the incumbent market leader in our addressable markets with an installed base of over 1 million classrooms.

In recent months, NetDragon has also made remarkable progress in our country-level initiatives in Thailand and the Kingdom of Saudi Arabia. In particular, we have announced a strategic initiative to develop aom-ai, a state-of-the-art AI education platform, with the support by the Ministry of Higher Education, Science, Research and Innovation in Thailand. This learning platform, which combines our cutting-edge education technologies with deep local insights of learners in the local market, is set for launch later this year. In Saudi Arabia, we are also working closely with the Ministry of Education on several exciting education technology initiatives in markets including K12 learning as well as technical and vocational training segments.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Gaming Business

Our gaming revenue, which represents 87.8% of gaming and application services revenue, reached RMB1.86 billion in the first half, representing a 1.3% increase HoH and a 3.0% decrease YoY. Our focus in the first half was two-fold. On the one hand, we focused on deepening engagement of users through our ever-increasing quality of gaming experience for our existing games, hence leading to strong retention of users that pave the way for long-term sustainability of our existing games. On the other hand, we made remarkable progress in the development and testing of our new games in the pipeline, and we are pleased to have seen some promising metrics and feedback that put us in a strong position to grow our revenue in the next 6 to 12 months.

During the first half, domestic PC game revenue was RMB1.36 billion, marking a YoY increase of 2.1% and a HoH increase of 5.3%. Our three major IPs, *Eudemons*, *Conquer* and *Heroes Evolved*, all recorded both YoY and HoH growth for their respective domestic PC gaming revenues. The stable growth of our existing games is a result of our focus in expanding our gaming contents towards an optimal combination of content-driven and numerical attributes-driven spending that leads to higher quality of gaming experience over time.

Our top flagship IP *Eudemons* generated a total revenue of RMB1.69 billion during the period, representing a 0.6% HoH increase and a 3.8% YoY decrease. The performance of *Eudemons* IP in the first half was affected largely by two factors, namely (1) stable HoH performance of our existing *Eudemons* games during the period while we put our focus in working towards the launch of our next new *Eudemons* game, *Eudemons Remake Version*, which is scheduled to launch in Q1 of next year, and (2) short-term disruptive bot issues experienced in the overseas version of *Eudemons Online*, where measures have already been put in place to put the game back on growth track.

We continued to focus on enhancing quality of experience for our players leading to YoY growth of both gameplay-driven and content-driven revenue of our flagship game *Eudemons Online* in domestic market during the first half. In particular, our measures include enhancing the depth and richness of different character roles, optimizing our graphics and in-game music, and integrating “Guofeng” and cultural elements to resonate with the interests and passion of many of our players.

Going forward, we expect to implement a multi-pronged growth strategy for the *Eudemons* IP, including achieving stable growth for our existing games, launching the *Eudemons Remake Version* and *Eudemons Pocket Version 2.0* (in early 2025 and 2026) respectively to target the huge existing pool of *Eudemons* IP players with a market-proven revenue model, as well as developing a new *Eudemons* PC game to be launched in the second half of 2025 to target both brand new players and existing player pool. We believe this strategy will bring the revenue scale of the *Eudemons* IP to a new level, and will drive revenue growth for many years to come.



# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Gaming Business (Cont'd)

Our *Heroes Evolved* IP continued to make positive progress in the first half, both from a revenue growth standpoint and a long-term strategic development standpoint. In particular, our *Heroes Evolved* PC game continued its momentum and delivered three consecutive reporting periods of revenue growth with a 29.6% increase in revenue YoY in the first half, driven by significant enhancements in overall gameplay and success in utilizing e-sports events to “activate” our players, leading to increase in players’ retention, APA and ARPU during the period. We also saw a 28% increase in the number of e-sports teams participating in our summer season competition, as well as a 71% increase in the audience number compared to the same competition in the autumn season last year. In terms of expanding our mobile revenue for *Heroes Evolved*, we are in stage for our new mobile game *Code-Nirvana* and target to launch the game in 2025.

Our *Conquer* IP delivered strong result in the domestic market with a 6.6% YoY increase in revenue, driven by two major content updates and the introduction of new innovative gameplays. In Egypt, our largest overseas market for *Conquer Online*, user spending dropped slightly by 1.3% YoY (on basis of local currency), mainly due to short-term restriction in electricity consumption (such restriction has subsequently been suspended in July, and it is expected that the electricity shortage will be resolved by the end of this year). Despite the short-term revenue decline, we continued to gain traction with monetization, as our APA grew by 16.7% YoY. We are also making notable progress in expanding the casual gameplay within the game, with casual players increasing by 12.7%, laying the foundation for a larger revenue base going forward.

We also made great strides in executing our long-term strategy of expanding our IP and genre. Our new roguelike top-down shooter game under development *Nebula Rangers* started testing on TapTap in July and received a user score of 8.0. The game is expected to launch globally in 2025 and has the potential to become a new high DAU title. Furthermore, our new casual game *Code-Alpha* started testing in the overseas markets in June with positive results, and we expect meaningful revenue contribution from this game for the rest of the year with the potential to open up a new track for a casual entertainment genre. We are also making inroad in the ACGN genre as we received positive testing metrics in the overseas market for *Under Oath* after several rounds of game refinement in the past 12 months, and we currently believe there is strong visibility to launch the game in the first half of 2025. Last but not least, we are in the testing stage for our other new games including *Miracland Saga*, a new MMORPG to focus on the overseas market, and *Huan Kong Cheng Zhan Ge* to target the idle card game segment.

Looking forward in terms of our new game pipeline as a whole, we expect to drive growth of our overall revenue and profitability by delivering on our new game launches in the number of 4-5 new titles in the coming 6-9 months spanning across both our existing flagship IPs and new IPs.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Mynd.ai

Our overseas education subsidiary, Mynd.ai, has experienced a continued industry-wide softening demand trend throughout most of its key geographic markets. After several years of high funding as a result of COVID-related government relief programs, local education authorities are still reacting to a broad normalization of budgets which affected hardware revenue for all players in the interactive flat panel market during the period. In addition, inflation has also led to higher recurring overhead costs for schools that affected budget allocation decisions for many of our customers.

The key financial milestones for Mynd.ai in the first half of the year are as follows:

- Revenue of RMB1.18 billion compared to RMB1.54 billion in the first half of the prior year, with the decrease primarily driven by reduced spending by key customers due to the softer industry demand.
- Gross margins increased 430 basis points to 29.7% primarily due to increased operational efficiencies leading to cost savings in a number of areas, including lower component material pricing, freight and other savings as a result of moving part of the manufacturing process to Mexico, as well as lower warranty costs due to observed lower failure rates on our ActivPanel 9 and our ActivPanel LX models.
- Cash flow from operations improvement of RMB34 million compared to the same period in the prior year.
- Cash position of RMB494 million with available existing credit line.
- Adjusted EBITDA loss of RMB40 million, a slight 7.5% YoY improvement (despite the decline in revenue) primarily driven by optimization of overhead costs.
- Net loss of RMB340 million compared to a loss of RMB109 million in the same period in the prior year, primarily due to the recording of a one-time non-cash valuation allowance against deferred tax assets in the amount of RMB294 million (excluding this one-time effect, net loss narrowed by 58.0% YoY).
- Management continuing to implement cost saving measures to mitigate effects of headwinds in the hardware market.

Despite the near-term challenges, we are confident in our business model and are well positioned to prioritize and streamline our operations and navigate the market challenges, as evidenced by our margin improvement. As we continue to pursue cost optimization initiatives and evaluate our capital allocation strategy, we believe we are competitively well positioned to continue as the market leader in this space.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Mynd.ai (Cont'd)

On a broader scale, we are facing an unprecedented opportunity as we believe the global classroom education technology market is still in a very early stage of evolving from a hardware-centric model to an integrated software and service-based model. We believe Mynd.ai's position as the incumbent market leader in our addressable markets, our installed base of over 1 million classrooms, a well-established network of distribution channels and a head-start advantage in launching its first SAAS offering in Explain Everything Advanced earlier this year are competitive moats that put us in a unique position at this market juncture. In view of the opportunity ahead of us, we are dedicated to delivering hardware and software solutions with groundbreaking tools and new technologies for the education, business, and public sectors in line with our long-term strategic vision.

We expect our subsidiary Mynd.ai to host a capital markets day in the near future to detail our strategic plan to our shareholders and the investor community.

### Corporate Development Milestones and Awards for the First Half of 2024

#### Corporate Development Milestones/Recognitions

Award Issuer	Name of the Award
Ministry of Culture and Tourism of China (中國文化和旅游部)	Demonstration Base of National Culture Industry (國家文化業示範基地)
Data Management Bureau of Fujian Province (福建省數據管理局)	The Innovative Unicorn Enterprise of Fujian Province in the Digital Economy Core Industry in 2024 (2024年度福建省數字經濟核心業“獨角獸”創新企業)
Industry and Information Technology Bureau of Fuzhou (福州市工業和信息化局)	Fuzhou Software Industry Leading Enterprise in 2024 (福州市2024年度軟件業龍頭企業)
The Fuzhou Federation of Trade Unions (福州市總工會)	Fuzhou Craftsman Academy in 2024 (2024年度福州市工匠學院)
Roadshow China (路演中)	The 7th Excellence IR for “Best Shareholder Relations Award” and “Best Capital Markets Communication Award” (第七屆卓越IR「最佳股東關係獎」和「最佳資本市場溝通獎」)
Cailian Press (財聯社) and China Overseas Development Association (中國產業海外發展協會)	Top 50 Chinese Overseas Service Organisations (中國企業出海服務機構50強)
EdTech Breakthrough	2024 “Classroom Tech Solution of the Year” award (2024「年度課堂科技解決方案獎」)
Tech & Learning	Best of 2023 awards (2023年最佳卓越獎)

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2024, the Group had pledged bank deposits, bank deposits with original maturity over three months and cash and cash equivalents of approximately RMB3,221 million (31 December 2023: RMB2,885 million), of which 71.3%, 24.1% and 4.6% were denominated in RMB, USD and other currencies.

As at 30 June 2024, the Group had net current assets of approximately RMB1,445 million as compared with approximately RMB945 million as at 31 December 2023.

## (4) TREASURY POLICY

It is the Group's treasury management policy not to engage in any high-risk investment or speculative derivative products and not to invest working capital in financial products with significant underlying leverage or risks. The Group continues to adopt a conservative approach to financial risk management with no leverage during the period under review. It is the Group's policy not to use financial instruments for hedging purpose. It is also the Group's policy not to invest foreign currency net investments which are hedged by currency borrowings and other hedging instruments.

## (5) DEBT MATURITY AND CURRENCY PROFILE

The Group's total bank borrowings and other debts, including convertible and exchangeable bonds and convertible note, as at 30 June 2024 amounted to RMB1,967 million (31 December 2023: RMB1,647 million) which comprises principal amount of bank borrowings of RMB1,318 million (31 December 2023: RMB1,034 million), convertible and exchangeable bonds of RMB274 million (31 December 2023: RMB256 million) and convertible note of RMB375 million (31 December 2023: RMB357 million).

The maturity profile of the Group's total principal amount of bank borrowings and other debts for both years is set out below:

As at 30 June 2024

	Denominated in			Total RMB million
	RMB RMB million	USD RMB million	HKD RMB million	
<b>On demand</b>	–	–	46	46
<b>Within one year</b>	1,120	801	–	1,921
<b>Total</b>	1,120	801	46	1,967

# MANAGEMENT DISCUSSION AND ANALYSIS

## (5) DEBT MATURITY AND CURRENCY PROFILE (Cont'd)

As at 31 December 2023

	Denominated in			Total RMB million
	RMB RMB million	USD RMB million	HKD RMB million	
On demand	–	–	45	45
Within one year	760	841	–	1,601
In the second year	–	1	–	1
Total	<u>760</u>	<u>842</u>	<u>45</u>	<u>1,647</u>

## (6) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.21 (31 December 2023: 0.17). As at 30 June 2024, total bank borrowings of the Group amounted to approximately RMB1,318 million (31 December 2023: RMB1,034 million) which included variable-rate loan of RMB197 million (31 December 2023: RMB272 million) and fixed-rate loan of RMB1,121 million (31 December 2023: RMB762 million). The bank borrowings of RMB1,307 million (31 December 2023: RMB1,032 million) were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group and corporate guarantee provided by the Company and its subsidiaries, the remaining bank borrowings of RMB11 million (31 December 2023: RMB2 million) were unsecured.

## (7) CAPITAL STRUCTURE

As at 30 June 2024, the Group's total equity amounted to approximately RMB6,280 million (31 December 2023: RMB6,174 million).

## (8) CONTINGENT LIABILITIES

As at 30 June 2024 and 31 December 2023, the Group did not have any material contingent liabilities.



# MANAGEMENT DISCUSSION AND ANALYSIS

## (9) 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 2024.

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

## (10) FOREIGN CURRENCY RISKS

The Group operates mainly in 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, Europe, Singapore and Poland and the business transactions conducted in these areas during the period were mainly denominated and settled in Hong Kong dollar, European dollar, Singapore dollar and Polish Zloty, 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.

## (11) CREDIT RISKS

As at 30 June 2024, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

In order to minimise the credit risk of trade receivables, contract assets, other receivables, refundable rental deposits and loan receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group always recognises lifetime expected credit loss ("ECL") for trade receivables and contract assets. The ECL on these assets are assessed individually for credit-impaired debtors and collectively for others using a provision matrix with appropriate groupings.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (11) CREDIT RISKS (Cont'd)

The credit risk on pledged bank deposits, bank deposits 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 participate or jointly control the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. Based on the assessment of the management, the ECL for these balances were insignificant and thus loss allowance was negligible.

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.

## (12) 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (13) STAFF INFORMATION

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

	<b>As at 30 June 2024</b>	As at 31 December 2023 (Restated)	As at 30 June 2023
Research and development	<b>3,165</b>	3,021	3,068
Selling and marketing	<b>772</b>	817	916
Accounting, finance and general administration	<b>1,173</b>	1,146	981
Production	<b>1,013</b>	1,000	242
Total	<b>6,123</b>	5,984	5,207

## (14) PERFORMANCE EVALUATION

### Human Resources

1. As of 30 June 2024, the total number of employees of the Group is 6,123.
2. Talent introduction and cultivation has always been a focus of the Company. Therefore, the Company has been bringing in high-caliber "new blood" continuously and optimising allocation of human resources. In the first half of 2024, we successfully attracted a large number of outstanding talents in the fields of gaming and education by leveraging our diverse and thriving business platform. A total of 294 talents were hired, including 77 senior elites, which enhanced team strength. Meanwhile, we launched the 2024 spring campus recruitment campaigns in key renowned universities across the country attracting the attention of 14,130 local and overseas fresh graduates with 50 outstanding fresh graduates receiving job offers in the end to bring in "new-blood". In respect of college-enterprise collaboration, we deepened the relationships with quality schools to jointly promote customisation of talent cultivation plan and built internship practice base to lay a solid foundation for scouting and cultivating future stars with potential.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Human Resources (Cont'd)

3. The Company continued to promote the new form of metaverse organisation, identifying outstanding elites and resources in wider scope. The Company externally breaks through the organizational confinement and attracting outstanding talents to work together for our cause through more flexible and diversified modes of employment and cooperation. In the first half of 2024, for more than 3,000 orders which NetDragon issued to different sectors in society and fulfilled business needs, over 1,000 orders were individuals and teams that had participated in the non-gaming business of NetDragon in the form of metaverse organisation. Meanwhile, we cooperated with major colleges and universities in China where students and teachers of which were invited to participate in the production line of Huayu resources and together creating quality education resources. The Company internally breaks through the organizational confinement and launched the function "Task Recommendation Hall" which achieved the voluntary disclosure of all pending tasks of the Company and have AI intelligently recommending matching tasks to employees according to their personal tags, allowing employees to claim tasks independently based on their personal interests and abilities, which breaks the boundaries of traditional departments and functions, facilitating the flexible allocation and efficient usage of the Company's human resources.
4. The Company continued to implement the strategy to go "full electronic". As a design-oriented enterprise that actively applies new technologies, NetDragon has always taken going electronic as an important starting point to fully promote AI empowerment and electronification management and is committed to building a new type of "AI + management" organization. We firmly implement the Company's strategy in the field of human resources, which accelerates the transformation process of the digitalisation of human resources:
  - we carefully set up and continue to improve the talent data dashboard to facilitate digitalisation and visualisation of talent inventory. In adherence with the concept of data-driven decision-making and AI pre-judgment/AI management, we highly optimized "talent management digitalisation" to provide information input for managers in every respect, enabling more objective and wise decision-making for personnel management.
  - we strive to build and improve our talent tag database and enrich talent data, and maximize the potential of employees through dynamic matching between people and events with the help of talent tags, so as to achieve flexible allocation of human resources. Operational effectiveness of the organization is enhanced by improving efficiency and quality of transaction processing simultaneously.
  - we are continuously advancing digital transformation of the recruitment process to achieve visualization, real-time and automated management of recruitment data and process, which enables prompt adjustment of recruitment decisions and immediate implementation of incentive measures.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Human Resources (Cont'd)

5. "AI+self-directed management" is advocated in the aspect of culture construction. Transforming to AI comprehensively, following proactively the newest AI capabilities and applying AI comprehensively across all tasks across the organisation. Committed to empower corporate management through electronification, NetDragon advocates open and transparent information and equal opportunities with employees directing their own learning and obtaining certificates, which allow them to choose tasks that they are interested in and excel at, thus, breaking through posts boundaries, which realised diversified career development and self-directed management to further stimulate individual value.
6. In terms of employee services and care, the Company focuses on the digital transformation of human resources, which effectively elevates the efficiency and quality of the human resources service through promoting the self and smart process change in employee services by building a human resources online self-service platform, introducing online electronic signatures, smart administrative service kiosk and other initiatives to help employees focus on high value production. The Company embraces a people-oriented approach management philosophy to promote AI based care for employees throughout their entire life cycle by carrying out cultural activities and welfare services with various themes that demonstrate the Company's characteristics, such as game-like point system with superb benefits, Lunar New Year benefits, personal online annual report and sending New Year wishes. Creating a healthy work environment which continues to improve the service quality, service efficiency and service experience to enhance the satisfaction and sense of belonging of the employees by adopting the combination of online and offline methods while considering the smart advantage of digitalisation and the warmth of humanistic care.

## (15) STAFF TRAININGS

NetDragon is an enterprise dedicated to promoting the development of education through technology, which highly values the development and training work of staff and formulated a series of policies and measures aimed at enhancing employees' knowledge and skills required to perform their job duties. Since 2024, the staff training of NetDragon University has covered a wide range of areas, from the concept of electronic iteration to the improvement of professional skills, to leadership and project management skills, as well as cutting-edge technologies such as game engine technology and visual arts, which demonstrates an all-rounded and in-depth learning system. The overall rationale closely revolves around the four core elements of innovation-driven, teamwork, technological frontier exploration and comprehensive quality improvement. A hierarchical and categorised training approach is adopted strategically to meet the needs and career development paths of employees in different positions. Meanwhile, emphasising the transformation and application of training results and encouraging employees to continue learning and keeping up through results-oriented assessment to ensure timely feedback on training effects. We value greatly the teaching of theoretical knowledge and emphasize the cultivation of practical operation and innovative ability through corporate staff training which we are committed to provide a systematic and personalised plan to improve the comprehensive quality and professional ability of employees in all aspects.



# MANAGEMENT DISCUSSION AND ANALYSIS

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

### 1. In-house training

In terms of internal training, we help the Company to cultivate talents efficiently and effectively by “electronification of tasks”, i.e., carrying out training and certification after clearly defining the tasks, precipitating the SOP and matching the task tools in order for staff to learn on demand and hold certificate while taking on duties, to achieve task-oriented training results.

In the first half of 2024, we have sorted out 6,462 tasks, 3,551 of which have completed task definitions and SOP productions; 2,821 of which have completed matching corresponding task tools. Through a complete set of task tools and relevant training, staff can learn how to use each task tool in the form of on-demand learning, instead of having to fully understand and master the entire concept, which greatly reduces the implementation threshold of each task.

In the first half of 2024, the EDA learning platform launched 560 courses which 4,254 students participated in the learning, with a total learning time of 8,209 hours and an average learning time of 1.92 hours per person. Students have gained related knowledge of the concept of the digitalisation of corporate tasks, general skills and special skills such as programming, fine art and design through the learning platform.

### 2. Enhancing internal employee welfare by providing incentive allowances

We organize our work more flexibly based on our organizational strategy of “co-creation everyone partakes in and value everyone shares” within the enterprise. In addition to completing their personal duties, employees may also improve their benefits by digital submission of certificates required for performing duties. “Holding certificates required for performing duties” means under the Company’s business-centric management philosophy, employees can obtain the qualification for performing duties by being granted certificates or certificate labels for the corresponding duties after taking specific trainings, passing appraisals and assessments of the relevant certification. Therefore, holding certificates required for performing duties is a prerequisite for our employees.

In the first half of 2024, in order to encourage all departments to implement the practice of “holding certificates required for performing duties”, we will distribute bonuses of various amounts based on order of applications received, which not only will ensure professional performance of duties, but also allow employees to be rewarded for their work and earn more as they work more, and have better career development opportunities, which helped improving organizational efficiency of the Company and obtaining more external support.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### 3. Professional skills training

In the first half of 2024, NetDragon University offered training courses with 13 different topics that focuses on business needs and employee development needs such as game engine courses, high-quality open-world scenario production process courses, "go all out" (NetDragon's keyword of the Year 2024) courses, flipped classroom teaching approach courses, iterative concept of electronification courses and introductory courses on the use of task tools, which covers multiple dimensions such as new technology training, leadership development and innovative thinking, effectively improving the comprehensive quality and professional competence of employees. Amongst those, we organised a systematic game engine training course to enhance the Company's internal competence and application level of new game engine technologies. We expect that through this training, students will have a deeper understanding of new game engine technologies and apply the knowledge they have learned in practical work to create more exciting works.

### 4. Heart sign-in

As one of the important corporate cultures of the Company, heart sign-in helps project leaders and management to organize and record their thoughts on the project/business, maintain their awareness of their work, and constantly upgrade themselves to promote the smooth development of their work

In the first half of the 2024, there were 57,431 heart sign-ins written by 273 people in heart sign-in club, which averages to 210 sign-ins per person, with pageviews reaching 42,000. We let all the students of the Company not only experience the corporate culture, but also learn about strategy, technology, management, product, design, operation and other aspects through heart sign-in method to help them grow better.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (16) CORPORATE CULTURE

“Passion, Learning, Innovation, Endeavor, Pursuit of Excellence, Fairness, and Customer-orientation” is the DNA of the corporate culture of NetDragon as well as the cultural gene of every individual of NetDragon.



Passion

Passion is the attitude that every staff treats his work and colleagues. We are optimistic, dedicate ourselves to work and never give up; we always maintain a positive attitude and try to influence others



Learning

Learning has been our habit. We take the initiative to learn new things with the unity of knowledge and action. We also focus on self-examination and are ready to share what we know.



Innovation

Innovation is the motive power behind our success. We welcome changes and actively explore new fields. We dare to make attempts and sustain innovations.



Endeavor

Endeavor is our characteristic. We actively hand up and show ourselves so that we can grasp opportunities and win the future.



Pursuit of Excellence

Pursuit of Excellence is our working standard. We always have high aspirations and keep improving. We only compete with ourselves so as to surpass your expectation.



Fairness

Fairness is the working environment we strongly advocate. We respect each other, keep a frank and open mind, stay objective and impartial, and believe in the value of clear rewards and punishments.



Customer-orientation

Customer-orientation is the design and service concept of our products. We lead demands, emphasize experience, pursue a win-win situation and create values.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (17) INTERIM DIVIDEND

On 29 August 2024, the Board has resolved to declare an interim dividend of HKD0.4 per share for the six months ended 30 June 2024 (2023: special interim dividend and interim dividend of HKD1.0 and HKD0.4 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 13 September 2024. It is expected that the interim dividend will be distributed on or around 31 October 2024.

## (18) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 13 September 2024 to Monday, 16 September 2024, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2024, 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 Thursday, 12 September 2024.

## OTHER INFORMATION

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

As at 30 June 2024, 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 C3 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	216,384,938 (L)	40.73%
Leung Lim Kin, Simon <i>(Note 3)</i>	The Company	Beneficial owner	5,779,040 (L)	1.09%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and beneficiary of certain trust	216,384,938 (L)	40.73%
Liu Luyuan	Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)")	Beneficial owner	RMB21,311,000 (L)	0.07%
Chen Hongzhan <i>(Note 4)</i>	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.11%



## OTHER INFORMATION

<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>
Lee Kwan Hung, Eddie <i>(Note 5)</i>	The Company	Beneficial owner	550,019 (L)	0.10%
Liu Sai Keung, Thomas <i>(Note 6)</i>	The Company	Beneficial owner	500,019 (L)	0.09%
Li Sing Chung, Matthias <i>(Note 7)</i>	The Company	Beneficial owner	2,000 (L)	0.0004%

*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% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 35.97% of the issued voting shares of the Company (the "Share(s)"). Liu Dejian is also interested in 0.39% of the Shares 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 4.37% of the Shares which is represented by interest held as a beneficiary of certain trust holding in aggregate of 21,541,819 Shares, and the rest being beneficial interest of 1,684,000 Shares.

Pursuant to the concert party agreement between Liu Dejian and Liu Luyuan, Liu Dejian and Liu Luyuan are deemed to be interested in 40.73% of the Shares 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 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. Leung Lim Kin, Simon is interested in 1.09% of the Shares which is represented by beneficial interest of 1,779,040 Shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.
4. Chen Hongzhan is interested in 2.11% of the Shares 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.
5. Lee Kwan Hung, Eddie is interested in 0.10% of the Shares which is represented by personal interest of 350,019 Shares and the rest being underlying shares of interest of 200,000 share options granted by the Company.
6. Liu Sai Keung, Thomas is interested in 0.09% of the Shares which is represented by personal interest of 300,019 Shares and the rest being underlying shares of interest of 200,000 share options granted by the Company.
7. Li Sing Chung, Matthias is interested in 0.0004% of the Shares which is represented by personal interest of 2,000 Shares.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2024, 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 2024, 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)	35.97%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	43,733,320 (L)	8.23%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	43,733,320 (L)	8.23%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	41,374,375 (L)	7.79%
Zheng Hui (deceased) <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporations	34,437,519 (L)	6.48%

*Notes:*

- The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

### 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 2.05%, 4.77%, 0.97% and 0.44% 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.
3. Reference is made to the announcement of the Company dated 9 June 2023 in relation to the passing away of Zheng Hui, a former executive Director.

Zheng Hui (deceased) was interested in 100% of the issued share capital of Fitter Property Inc., which in turn was interested in 3.58% of the Shares. Zheng Hui was interested in 100% of the issued share capital of Eagle World International Inc., which in turn was interested in 2.62% of the Shares. Zheng Hui was also interested in 0.28% of the issued Shares which was represented by beneficial interest of 1,497,000 Shares. Zheng Hui's interests are now undergoing probate.

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 2024.

### SHARE SCHEMES

At the annual general meeting of the Company held on 6 June 2024, the shareholders of the Company approved the adoption of the 2024 share option scheme (the "2024 Share Option Scheme") and the 2024 share award scheme (the "2024 Share Award Scheme") (together, the "Existing Share Schemes"). Further details of the Existing Share Schemes are set out in the circular of the Company dated 24 April 2024.

As at the date of adoption of the Existing Share Schemes and as at 30 June 2024, no share options and awarded shares were granted under the Existing Share Schemes, the total number of share options and awarded shares available for grant under the Existing Share Schemes shall not exceed 53,126,253, representing 10% of the Shares of the Company, the total number of share options and awarded shares available for grant to the service providers (as defined under the Existing Share Schemes) under the Existing Share Schemes shall not exceed 5,312,625, representing 1% of the Shares of the Company.

## OTHER INFORMATION

### SHARE SCHEMES (Cont'd)

Details of share option schemes and share award scheme of the Company are set out below.

#### Share Option Scheme

The Company adopted the 2024 Share Option Scheme on 6 June 2024 to replace its previous share option scheme. The share option schemes adopted by the Company on 24 May 2018 (the "2018 Share Option Scheme") and 12 June 2008 (the "2008 Share Option Scheme") were terminated on 6 June 2024 and 24 May 2018 respectively. The outstanding share options granted under the 2018 Share Option Scheme and the 2008 Share Option Scheme shall remain valid and exercisable according to the terms of the schemes.

The 2024 Share Option Scheme was adopted for the purpose to enable the Company to grant share options to eligible participants (being the employee of the Company or any related entities, and the services providers) as incentives or rewards for their contribution or potential contribution to the Group. Unless early terminated by the Board, the 2024 Share Option Scheme shall be valid and effective for a term of ten years commencing on 6 June 2024.

As at 30 June 2024, no share options were granted under the 2024 Share Option Scheme. No share options were granted under the 2018 Share Option Scheme as at the date of its termination. Details of the movements of the outstanding share options under the 2008 Share Option Scheme and the 2018 Share Option Scheme during the six months ended 30 June 2024 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 2024	Granted	Exercised	Cancelled	Lapsed	30 June 2024
<b>Independent non-executive Directors</b>								
Lee Kwan Hung, Eddie	31.03.2017	23.65	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	31.03.2017	23.65	100,000	-	-	-	-	100,000
<b>Others</b>								
Employees	31.03.2017	23.65	100,000	-	-	-	-	100,000
<b>Total</b>			<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,000</u>

## OTHER INFORMATION

### SHARE SCHEMES (Cont'd)

#### Share Option Scheme (Cont'd)

##### 2018 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options				As at
			1 January 2024	Granted	Exercised	Cancelled	Lapsed	30 June 2024
<b>Executive Director</b>								
Leung Lim Kin, Simon	24.01.2020	21.07	4,000,000	-	-	-	-	4,000,000
<b>Independent non-executive Directors</b>								
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>1,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,100,000</u>
<b>Total</b>			<u>5,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,300,000</u>

Note 1: Share options granted on 31 March 2017 were vested from 31 March 2018 to 31 March 2020, 25% of which were vested on the first anniversary of the date of grant, 25% were vested on the second anniversary of the date of grant, and 50% were vested on the third anniversary of the date of grant. The share options are exercisable from the relevant vesting dates until 30 March 2027.

Note 2: Share options granted on 24 January 2020 to the independent non-executive Directors were vested from 24 January 2021 to 24 January 2023, with one-third of the share options vested on the first, second and third anniversary of the date of grant. The remaining share options granted to grantees on 24 January 2020 were vested from 24 January 2021 to 24 January 2024, with 25% of the share options vested on each anniversary of the date of grant. All share options granted on 24 January 2020 are exercisable from the relevant vesting dates until 23 January 2030.

## OTHER INFORMATION

### SHARE SCHEMES (Cont'd)

#### Share Award Scheme

The Company adopted the 2024 Share Award Scheme on 6 June 2024 to replace the share award scheme that was adopted on 2 September 2008 and extended on 31 August 2018 (the "2008 Share Award Scheme"). The Board may, at their discretion, select any eligible participant (being the employee of the Company or any related entities, and the services providers) for participation in the 2024 Share Award Scheme. Unless early terminated by the Board, the 2024 Share Award Scheme shall be valid and effective for a term of ten years commencing on 6 June 2024.

Pursuant to the rules of the 2024 Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the "Trustee"), for the purpose of administering the 2024 Share Award Scheme and holding the awarded shares before they are vested.

The awarded shares, will be transferred to the selected participants at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected participants within the period stipulated in the vesting notice issued by the Trustee to the selected participants; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

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

As at 30 June 2024, no awarded shares were granted under the 2024 Share Award Scheme. No awarded shares were granted under the 2008 Share Award Scheme as at the date of its termination.



## 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 Education Online Limited ("Best Assistant"), NetDragon Websoft Inc. ("NetDragon BVI"), Digital Train Limited ("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 (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 30 June 2024, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistant and no warrants were converted into Shares of the Company.

## OTHER INFORMATION

### MAJOR TRANSACTION IN RELATION TO THE MERGER, MAJOR DISPOSAL AND PROPOSED SPIN-OFF OF ELMTREE, AND DISTRIBUTION IN SPECIE

#### Merger and Proposed Spin-off

On 18 April 2023 (after trading hours), the Company, Best Assistant, Mynd.ai, Inc. (“Mynd.ai”, formerly known as Gravitass Education Holdings, Inc. (“GEHI”)) and Bright Sunlight Limited (“Bright Sunlight”) (a direct wholly-owned subsidiary of GEHI) entered into an agreement and plan of merger (the “Merger Agreement”).

The transactions contemplated under the Merger Agreement involve, among other things: (i) the incorporation of eLMTree as a wholly-owned subsidiary of Best Assistant and Best Assistant transferring the education business of the Company outside of the PRC (comprising the businesses operated by Promethean, Edmodo, Elernity (Thailand) Co., Ltd. and Sky Knight Investments Limited) to eLMTree; (ii) (a) all shares reserved by Best Assistant under the Best Assistant Share Award Scheme being granted, (b) certain inter-company loans from the Company or NetDragon BVI, on the one hand, to Best Assistant or any subsidiary thereof, on the other hand, being cancelled in exchange for the issuance of certain ordinary shares of Best Assistant to NetDragon BVI, and (c) interests in Best Assistant held by all existing shareholders of Best Assistant (except for one ordinary share of Best Assistant held by NetDragon BVI) being repurchased in exchange for ordinary shares of eLMTree (the “BA Repurchase”) or otherwise being procured that such shares of the Company are exchanged for newly-issued ordinary shares of eLMTree in any other manner permitted by applicable law; and (iii) Bright Sunlight merging with and into eLMTree with eLMTree surviving after the merger (the “Merger”).

## OTHER INFORMATION

### MAJOR TRANSACTION IN RELATION TO THE MERGER, MAJOR DISPOSAL AND PROPOSED SPIN-OFF OF ELMTREE, AND DISTRIBUTION IN SPECIE (Cont'd)

#### Merger and Proposed Spin-off (Cont'd)

The transactions contemplated under the Merger Agreement were approved by the shareholders at the extraordinary general meeting held on 14 July 2023. The closing of the Merger (the "Closing") has taken place and the Merger has become effective on 13 December 2023. Upon the Closing, eLMTree has become a direct wholly owned subsidiary of Mynd.ai, a company listed on the NYSE American and the financial results of Mynd.ai and its subsidiaries (including eLMTree) will be consolidated into the consolidated financial statements of the Company.

#### Distribution in Specie

To give due regard to the interests of the shareholders of the Company, upon the Closing, the Directors passed a resolution to declare a special dividend to shareholders by way of a distribution in specie (the "Distribution in Specie") of 676,681 American depositary shares represented by ordinary shares of Mynd.ai held by the Company (indirectly through NetDragon BVI) after Closing (or cash alternative), in proportion to their respective shareholdings in the Company.

The distribution completed on 15 February 2024. The Company has paid an aggregate of approximately HKD71.7 million to shareholders in respect of the cash payments for the Distribution in Specie.

### 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 C3 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 C3 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 2024.

### COMPETITION AND CONFLICT OF INTERESTS

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

## OTHER INFORMATION

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the period under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix C1 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 condensed 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 Li Sing Chung Matthias (the chairman of the Audit Committee), Lee Kwan Hung, Eddie and Liu Sai Keung, Thomas.

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 2024 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 2024, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities (including any sale of treasury shares).

By Order of the Board  
**NetDragon Websoft Holdings Limited**  
**Liu Dejian**  
*Chairman*

Hong Kong, 29 August 2024

# 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 35 to 80, which comprise the condensed consolidated statement of financial position as of 30 June 2024, 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 notes to the condensed consolidated financial statements. 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

## 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

29 August 2024

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

FOR THE SIX MONTHS ENDED 30 JUNE 2024

		<b>Six months ended 30 June</b>	
		<b>2024</b>	2023
		<b>(Unaudited)</b>	(Unaudited)
		<b>RMB million</b>	RMB million
	NOTES		
Revenue	4	<b>3,301</b>	3,681
Cost of revenue		<b>(1,102)</b>	(1,394)
Gross profit		<b>2,199</b>	2,287
Other income and gains	5(a)	<b>139</b>	120
Selling and marketing expenses		<b>(352)</b>	(443)
Administrative expenses		<b>(551)</b>	(570)
Research and development costs		<b>(696)</b>	(641)
Other expenses and losses	5(b)	<b>(105)</b>	(54)
Operating profit		<b>634</b>	699
Exchange gain (loss) on pledged bank deposits, financial assets at fair value through profit or loss, convertible and exchangeable bonds and derivative financial instruments		<b>2</b>	(35)
Fair value change on financial assets at fair value through profit or loss		<b>77</b>	35
Fair value change on derivative financial instruments		<b>70</b>	15
Finance costs		<b>(81)</b>	(135)
Profit before taxation		<b>702</b>	579
Taxation	6	<b>(397)</b>	(126)
Profit for the period	7	<b>305</b>	453



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

FOR THE SIX MONTHS ENDED 30 JUNE 2024

		<b>Six months ended 30 June</b>	
	NOTE	<b>2024 (Unaudited) RMB million</b>	2023 (Unaudited) RMB million
Other comprehensive income (expense) for the period, net of income tax:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		1	61
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value change on equity instruments at fair value through other comprehensive income		<u>(12)</u>	<u>(1)</u>
Other comprehensive (expense) income for the period		<u>(11)</u>	<u>60</u>
Total comprehensive income for the period		<u><b>294</b></u>	<u><b>513</b></u>
Profit (loss) for the period attributable to:			
– Owners of the Company		400	500
– Non-controlling interests		<u>(95)</u>	<u>(47)</u>
		<u><b>305</b></u>	<u><b>453</b></u>
Total comprehensive income (expense) for the period attributable to:			
– Owners of the Company		388	557
– Non-controlling interests		<u>(94)</u>	<u>(44)</u>
		<u><b>294</b></u>	<u><b>513</b></u>
		<b>RMB cents</b>	RMB cents
<b>Earnings per share</b>	9		
– Basic		<b>75.46</b>	92.61
– Diluted		<u><b>75.46</b></u>	<u>92.61</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2024

	NOTES	30 June 2024  (Unaudited) RMB million	31 December 2023  (Audited and restated) RMB million
<b>Non-current assets</b>			
Property, plant and equipment	10	2,357	2,422
Right-of-use assets	10	458	380
Investment properties		47	60
Goodwill		320	325
Intangible assets	10	783	868
Interests in associates and joint ventures		43	43
Equity instruments at fair value through other comprehensive income		32	45
Financial assets at fair value through profit or loss	11	509	453
Loan receivables		12	12
Other receivables, prepayments and deposits	14	352	351
Deferred tax assets		151	433
		<u>5,064</u>	<u>5,392</u>
<b>Current assets</b>			
Properties under development		70	70
Properties for sale		281	280
Inventories	12	269	405
Financial assets at fair value through profit or loss	11	124	38
Loan receivables		90	79
Trade receivables	13	745	702
Other receivables, prepayments and deposits	14	667	492
Tax recoverable		30	39
Pledged bank deposits		624	315
Bank deposits with original maturity over three months		215	329
Cash and cash equivalents		2,382	2,241
		<u>5,497</u>	<u>4,990</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2024

	NOTES	30 June 2024  (Unaudited) RMB million	31 December 2023  (Audited and restated) RMB million
<b>Current liabilities</b>			
Trade and other payables	15	1,390	1,518
Contract liabilities		379	491
Lease liabilities		97	76
Provisions		110	127
Derivative financial instruments	11	37	107
Bank borrowings	16	1,318	1,033
Convertible and exchangeable bonds	17	274	256
Convertible note	18	375	357
Tax payable		72	80
		<u>4,052</u>	<u>4,045</u>
<b>Net current assets</b>		<u>1,445</u>	<u>945</u>
<b>Total assets less current liabilities</b>		<u>6,509</u>	<u>6,337</u>
<b>Non-current liabilities</b>			
Other payables	15	35	37
Lease liabilities		110	45
Bank borrowings	16	-	1
Deferred tax liabilities		84	80
		<u>229</u>	<u>163</u>
<b>Net assets</b>		<u>6,280</u>	<u>6,174</u>
<b>Capital and reserves</b>			
Share capital	19	39	39
Share premium and reserves		6,075	5,856
Equity attributable to owners of the Company		<u>6,114</u>	<u>5,895</u>
Non-controlling interests		166	279
		<u>6,280</u>	<u>6,174</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## Attributable to owners of the Company

	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	Total equity
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
			(Note a)	(Note b)	(Note c)	(Note d)			(Note e)							
At 1 January 2023 (audited)	40	1,918	8	(156)	10	678	193	22	(9)	53	(92)	(7)	4,241	6,899	(300)	6,599
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	500	500	(47)	453
Other comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	58	(11)	-	57	3	60
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	58	(11)	500	557	(44)	513
Repurchase and cancellation of shares	(1)	(134)	1	-	-	-	-	-	-	-	-	-	(1)	(135)	-	(135)
Contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Recognition of equity-settled share-based payments, net of share options forfeited	-	-	-	-	-	-	-	-	-	2	-	-	-	2	-	2
Final dividend for 2022 declared	-	-	-	-	-	-	(193)	-	-	-	-	-	2	(191)	-	(191)
Interim dividend for 2023 proposed	-	-	-	-	-	-	196	-	-	-	-	-	(196)	-	-	-
Special interim dividend for 2023 proposed	-	-	-	-	-	-	490	-	-	-	-	-	(490)	-	-	-
At 30 June 2023 (unaudited)	39	1,784	9	(156)	10	678	686	22	(9)	55	(34)	(8)	4,056	7,132	(343)	6,789
At 1 January 2024 (audited)	39	1,599	9	73	10	833	193	22	(3)	51	(51)	(28)	3,148	5,895	279	6,174
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	400	400	(95)	305
Other comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	-	(12)	-	(12)	1	(11)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	-	(12)	400	388	(94)	294
Acquisition of additional/disposal of partial equity interest of subsidiaries without losing control	-	-	-	(9)	-	3	-	-	-	-	-	-	22	16	(21)	(5)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	8	-	-	-	8	-	8
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	2
Final dividend for 2023 declared	-	-	-	-	-	-	(193)	-	-	-	-	-	-	(193)	-	(193)
Interim dividend for 2024 proposed	-	(194)	-	-	-	-	194	-	-	-	-	-	-	-	-	-
At 30 June 2024 (unaudited)	39	1,405	9	64	10	836	194	22	(3)	59	(51)	(40)	3,570	6,114	166	6,280

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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.) 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 2024

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB million</b>	RMB million
<b>OPERATING ACTIVITIES</b>		
Profit for the period	<b>305</b>	453
Adjustments for:		
Taxation	<b>397</b>	126
Interest income on bank balances, loan receivables, convertible promissory notes and refundable rental deposits	<b>(26)</b>	(33)
Fair value change on derivative financial instruments	<b>(70)</b>	(15)
Fair value change on financial assets at fair value through profit or loss	<b>(77)</b>	(35)
Loss on fair value change in investment properties	<b>13</b>	–
Gain on disposal of intangible assets	<b>(51)</b>	–
Amortisation of intangible assets	<b>85</b>	70
Depreciation of property, plant and equipment	<b>107</b>	95
Depreciation of right-of-use assets	<b>60</b>	38
Reversal of impairment loss of intangible assets	<b>–</b>	(43)
Write-down of inventories	<b>–</b>	4
Interest expense on bank borrowings (included in finance costs)	<b>26</b>	23
Interest expense on convertible and exchangeable bonds and convertible note (included in finance costs)	<b>48</b>	108
Others	<b>5</b>	10
Operating cash flows before movements in working capital	<b>822</b>	801
Increase in trade receivables	<b>(30)</b>	(172)
Decrease in inventories	<b>138</b>	225
Increase in properties under development	<b>–</b>	(51)
(Increase) decrease in other receivables, prepayments and deposits	<b>(175)</b>	41
Decrease in trade and other payables	<b>(203)</b>	(257)
Decrease in contract liabilities	<b>(112)</b>	(3)
(Decrease) increase in provisions	<b>(17)</b>	53
Cash generated from operations	<b>423</b>	637
Interest paid	<b>(56)</b>	(35)
Income tax paid	<b>(108)</b>	(145)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>259</b>	457

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

		<b>Six months ended 30 June</b>	
		<b>2024</b>	2023
		<b>(Unaudited)</b>	(Unaudited)
		<b>RMB million</b>	RMB million
	NOTES		
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	10	(66)	(116)
Placement of bank deposits with original maturity over three months		(100)	(507)
Withdrawal of bank deposits with original maturity over three months		214	200
Placement of pledged bank deposits		(310)	(12)
Purchase of intangible assets	10	(289)	(83)
Proceeds from disposal of intangible assets		341	–
Interest received		27	25
Purchase of financial assets at fair value through profit or loss		(2,097)	(6,061)
Proceeds from disposal of financial assets at fair value through profit or loss		2,030	6,062
Other investing activities		3	(57)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(247)</b>	<b>(549)</b>
<b>FINANCING ACTIVITIES</b>			
New bank borrowings raised	16	863	703
Repayment of bank borrowings		(580)	(512)
Repayment of lease liabilities		(53)	(37)
Payment for repurchase and cancellation of shares		–	(135)
Dividend paid		(65)	–
Contribution from non-controlling interests of a subsidiary		–	1
Acquisition of partial interest of subsidiaries		(9)	–
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>156</b>	<b>20</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>168</b>	<b>(72)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>2,241</b>	<b>3,701</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>(27)</b>	<b>16</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>2,382</b>	<b>3,645</b>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 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 controlling shareholders are Dr. Liu Dejian and Mr. Liu Luyuan (the “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) gaming and application services, (ii) overseas education business (“Mynd.ai business”), and (iii) property development 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 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.

Other than additional/change in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2023.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 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 Group's annual periods beginning on 1 January 2024 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

Except as described below, 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.

*Impacts on application of Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)" (the "2020 Amendments") and Amendments to HKAS 1 "Non-current Liabilities with Covenants" (the "2022 Amendments")*

### Accounting policies

#### Convertible instruments (with conversion options not meeting "fixed for fixed criterion")

When determining the classification of convertible instruments including the host liability and the related derivative components as current or non-current, the Group considers both the redemption through cash settlement and the transfer of the Group's own equity instruments as a result of exercise of conversion options by holders as settlement of the convertible instruments.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

### Application of amendments to HKFRSs (Cont'd)

*Impacts on application of Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)" (the "2020 Amendments") and Amendments to HKAS 1 "Non-current Liabilities with Covenants" (the "2022 Amendments") (Cont'd)*

#### *Transition and summary of impact*

The Group has applied the new accounting policy and the amendments retrospectively. The application of the amendments in the current period has the following impacts on convertible instruments with conversion options not meeting "fixed for fixed criterion".

The Group's outstanding convertible instruments, comprising convertible and exchangeable bonds (Note 17) and convertible note (Note 18), include counterparty conversion options that do not meet equity instruments classification by applying HKAS 32 "Financial Instruments: Disclosure and Presentation". The host debt component is measured at amortised cost and derivative component (including the conversion options) is measured at fair value. Upon the application of the 2020 Amendments, given that the conversion options are exercisable anytime, the host liability and the derivative component as at 1 January and 31 December 2023 are reclassified as current liabilities as the holders have the option to convert within twelve months after the reporting period.

Except as described above, the application of the 2020 Amendments and 2022 Amendments has no other material impact on the classification of the Group's other liabilities. The change in accounting policy does not have impact to the Group's profit or loss or earnings per share for the six months ended 30 June 2023. The details of the impacts on each financial statement line item on the condensed consolidated statement of financial position arising from the application of the amendments are set out under "Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements" in this Note. Comparative figures have been restated.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

Application of amendments to HKFRSs (Cont'd)

*Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements*

The effects of the changes in accounting policy as a result of application of amendments to the 2020 Amendments and the 2022 Amendments on the condensed consolidated statement of financial position as at the end of the reporting period 30 June 2024, immediately preceding year 31 December 2023 and beginning of the comparative period 1 January 2023, are as follows:

	30 June 2024		
	As reported RMB million	Adjustments RMB million	Without the application of the 2020 Amendments and the 2022 Amendments RMB million
<b>Current liabilities</b>			
Convertible note	375	(375)	-
<b>Non-current liabilities</b>			
Convertible note	-	375	375
	<u>375</u>	<u>-</u>	<u>375</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

Application of amendments to HKFRSs (Cont'd)

*Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements (Cont'd)*

	31 December 2023		
	As reported RMB million	Adjustments RMB million	Without the application of the 2020 Amendments and the 2022 Amendments RMB million
<b>Current liabilities</b>			
Convertible and exchangeable bonds	256	(253)	3
Convertible note	357	(356)	1
<b>Non-current liabilities</b>			
Convertible and exchangeable bonds	–	253	253
Convertible note	–	356	356
	<u>613</u>	<u>–</u>	<u>613</u>

	1 January 2023		
	As reported RMB million	Adjustments RMB million	Without the application of the 2020 Amendments and the 2022 Amendments RMB million
<b>Current liabilities</b>			
Convertible and exchangeable bonds	1,333	(1,317)	16
<b>Non-current liabilities</b>			
Convertible and exchangeable bonds	–	1,317	1,317
	<u>1,333</u>	<u>–</u>	<u>1,333</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 4. REVENUE AND SEGMENT INFORMATION

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.

Revenue of the property development segment was insignificant for the six months ended 30 June 2024 and the six months ended 30 June 2023.

*Types of goods and services*

	<b>Six months ended 30 June 2024 (Unaudited)</b>		
	<b>Gaming and application services RMB million</b>	<b>Mynd.ai RMB million</b>	<b>Total RMB million</b>
Revenue from sales of pre-paid game cards for online and mobile games	<b>1,862</b>	<b>-</b>	<b>1,862</b>
Sales of education equipment and related goods	<b>129</b>	<b>992</b>	<b>1,121</b>
Revenue from educational services	<b>88</b>	<b>188</b>	<b>276</b>
Revenue from provision of mobile solution, products and marketing services	<b>42</b>	<b>-</b>	<b>42</b>
	<b>2,121</b>	<b>1,180</b>	<b>3,301</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

*Types of goods and services (Cont'd)*

	Six months ended 30 June 2023 (Unaudited and restated)		
	Gaming and application services RMB million	Mynd.ai RMB million	Total RMB million
Revenue from sales of pre-paid game cards for online and mobile games	1,920	–	1,920
Sales of education equipment and related goods	105	1,508	1,613
Revenue from educational services	73	34	107
Revenue from provision of mobile solution, products and marketing services	41	–	41
	<u>2,139</u>	<u>1,542</u>	<u>3,681</u>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

*Timing of revenue recognition*

	<b>Six months ended 30 June 2024 (Unaudited)</b>		
	<b>Gaming and application services RMB million</b>	<b>Mynd.ai RMB million</b>	<b>Total RMB million</b>
A point in time	<b>1,991</b>	<b>992</b>	<b>2,983</b>
Over time	<b>130</b>	<b>188</b>	<b>318</b>
	<b><u>2,121</u></b>	<b><u>1,180</u></b>	<b><u>3,301</u></b>

	<b>Six months ended 30 June 2023 (Unaudited and restated)</b>		
	<b>Gaming and application services RMB million</b>	<b>Mynd.ai RMB million</b>	<b>Total RMB million</b>
A point in time	2,025	1,508	3,533
Over time	114	34	148
	<b><u>2,139</u></b>	<b><u>1,542</u></b>	<b><u>3,681</u></b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

### *Geographical information*

	<b>Six months ended 30 June 2024 (Unaudited)</b>		
	<b>Gaming and application services</b>	<b>Mynd.ai</b>	<b>Total</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Mainland China	<b>1,828</b>	<b>–</b>	<b>1,828</b>
United States of America ("USA")	<b>216</b>	<b>709</b>	<b>925</b>
Europe (Note)	<b>–</b>	<b>262</b>	<b>262</b>
Singapore	<b>–</b>	<b>136</b>	<b>136</b>
Others	<b>77</b>	<b>73</b>	<b>150</b>
	<b><u>2,121</u></b>	<b><u>1,180</u></b>	<b><u>3,301</u></b>

	<b>Six months ended 30 June 2023 (Unaudited and restated)</b>		
	<b>Gaming and application services</b>	<b>Mynd.ai</b>	<b>Total</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Mainland China	1,790	–	1,790
USA	293	1,170	1,463
Europe (Note)	–	330	330
Others	56	42	98
	<b><u>2,139</u></b>	<b><u>1,542</u></b>	<b><u>3,681</u></b>

Note: Europe mainly includes Germany, United Kingdom, France, Italy and others. Each of which individually contributed less than 10% of total revenue.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 4. REVENUE AND SEGMENT INFORMATION (Cont'd)

### Segment information

Information reported to the Group's chief operating decision makers ("CODM"), being the directors of the Company, for the purpose of resource allocation and assessment of segment performance, was based on the geographical locations of the customers in previous reporting structure.

Prior period segment disclosures are restated to conform with the current period presentation.

The following is an analysis of the Group's revenue and results by reportable segments:

*Six months ended 30 June 2024 (Unaudited)*

	<b>Gaming and application services</b>	<b>Mynd.ai</b>	<b>Property development</b>	<b>Total</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Segment revenue	<u>2,121</u>	<u>1,180</u>	<u>-</u>	<u>3,301</u>
Segment profit (loss)	<u>758</u>	<u>(71)</u>	<u>(4)</u>	<u>683</u>
Unallocated other income and gains				54
Unallocated corporate expenses and losses				<u>(35)</u>
Profit before taxation				<u>702</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

*Six months ended 30 June 2023 (Unaudited and restated)*

	Gaming and application services RMB million	Mynd.ai RMB million	Property development RMB million	Total RMB million
Segment revenue	<u>2,139</u>	<u>1,542</u>	<u>–</u>	<u>3,681</u>
Segment profit (loss)	<u>682</u>	<u>(68)</u>	<u>(18)</u>	596
Unallocated other income and gains				45
Unallocated corporate expenses and losses				<u>(62)</u>
Profit before taxation				<u>579</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 are from external customers.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

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

	<b>30 June 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
Gaming and application services	<b>6,099</b>	5,555
Mynd.ai	<b>2,484</b>	3,052
Property development	<b>738</b>	725
Total segment assets	<b>9,321</b>	9,332
Unallocated	<b>1,240</b>	1,050
	<b>10,561</b>	10,382

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 equity instruments at fair value through other comprehensive income ("FVTOCI"), certain financial assets at fair value through profit or loss ("FVTPL"), certain 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

### (a) Other income and gains

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB million</b>	RMB million
Government grants (Note)	<b>16</b>	13
Interest income on bank balances, loan receivables, convertible promissory notes and refundable rental deposits	<b>26</b>	33
Gain on disposal of intangible assets	<b>51</b>	–
Reversal of impairment loss of intangible assets	<b>–</b>	43
Others	<b>46</b>	31
	<b>139</b>	120

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 research and development costs already incurred, which amounted to RMB12 million (six months ended 30 June 2023: RMB9 million) for the six months ended 30 June 2024 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 RMB4 million (six months ended 30 June 2023: RMB4 million).

### (b) Other expenses and losses

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB million</b>	RMB million
Redundancy payments	<b>16</b>	24
Fair value change in investment properties	<b>13</b>	–
Other tax and charges	<b>20</b>	18
Others	<b>56</b>	12
	<b>105</b>	54

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB million</b>	RMB million
The tax charge comprises:		
Hong Kong Profits Tax		
– Current period	<b>31</b>	36
PRC Enterprise Income Tax		
– Current period	<b>85</b>	119
– Over provision in prior years	<b>(8)</b>	(3)
	<b>77</b>	116
Taxation in other jurisdictions		
– Current period	<b>2</b>	1
Deferred tax		
– Current period	<b>287</b>	(27)
	<b>397</b>	126

The Group is operating in certain jurisdictions where the Pillar Two Rules is effective. However, as the Group's estimated effective tax rates of all the jurisdictions in which the Group operates are higher than 15 per cent, after taking into account the adjustments under the Global Anti-base Erosion Rules based on management's best estimate, the management of the Group considered the impact is not material.

During the six months ended 30 June 2024, the Group has reversed an amount of RMB294 million deferred tax assets due to the decline in sales and reduced customer demand in the first six months of 2024 resulting in the uncertainty regarding the realisability of such deferred tax assets in a subsidiary of the Group incorporated in the United States.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 7. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB million</b>	RMB million
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	<b>15</b>	54
Other staff costs:		
Salaries and other benefits	<b>1,055</b>	1,009
Contributions to retirement benefits schemes	<b>97</b>	83
Share-based payments expense	<b>8</b>	–
Redundancy payments	<b>16</b>	24
	<b>1,191</b>	1,170
Amortisation of intangible assets	<b>85</b>	70
Depreciation of property, plant and equipment	<b>107</b>	95
Depreciation of right-of-use assets	<b>60</b>	38
Total depreciation and amortisation	<b>252</b>	203
Cost of goods sold for education equipment and related goods	<b>805</b>	1,170
Advertising and promotion expenses (included in selling and marketing expenses)	<b>160</b>	183
Write-down of inventories	–	4
Gain on disposal of intangible assets	<b>(51)</b>	–
Reversal of impairment loss of intangible assets	–	(43)



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 8. DIVIDENDS

Dividends recognised as distribution during the period:  
2023 final dividend – Hong Kong dollar (“HKD”) 0.40  
(2023:2022 final dividend – HKD0.40) per share

### Six months ended 30 June

2024 (Unaudited) RMB million	2023 (Unaudited) RMB million
<u>193</u>	<u>191</u>

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.4 per share, amounting to HKD213 million (equivalent to RMB194 million), will be paid to the shareholders of the Company whose names appear in the register of members on 13 September 2024.

## 9. 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:

Earnings for the purpose of basic and diluted earnings per share:  
– Profit for the period attributable to the owners of the Company

### Six months ended 30 June

2024 (Unaudited) RMB million	2023 (Unaudited) RMB million
<u>400</u>	<u>500</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>'000</b>	<b>'000</b>
Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of treasury shares held under share award scheme)	<b>531,074</b>	539,186
Effect of dilutive potential shares from the Company's share option scheme	<u>-</u>	<u>27</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of treasury shares held under share award scheme)	<b><u>531,074</u></b>	<b><u>539,213</u></b>

The computation of diluted earnings per share for the six months ended 30 June 2024 did not assume the exercise of the Company's share options as the exercise price of these options was higher than the average market price for shares for the six months ended 30 June 2024. Diluted earnings per share for the six months ended 30 June 2024 also did not assume the exercise of the restricted stock units ("RSUs") granted by Mynd.ai Inc. ("Mynd.ai, formerly known as Gravitass Education Holdings, Inc."), a subsidiary of the Company, under the Mynd.ai Equity Incentive Plan (the "Mynd Incentive Plan") as disclosed in Note 20(iv), since the exercise of the RSUs would result in an increase in earnings per share for the period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

During the current interim period, the Group paid approximately RMB66 million (six months ended 30 June 2023: RMB116 million) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB20 million (six months ended 30 June 2023: RMB24 million) in plant and equipment and RMB40 million (six months ended 30 June 2023: RMB82 million) in construction in progress.

During the current interim period, the Group entered into several new lease agreements ranging from 2 to 3 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 RMB142 million (six months ended 30 June 2023: RMB15 million) and lease liabilities of RMB141 million (six months ended 30 June 2023: RMB13 million).

During the current interim period, the Group paid approximately RMB289 million (six months ended 30 June 2023: RMB83 million) for the acquisition of intangible assets, of which an amount of approximately United States dollar ("USD") 33 million (equivalent to RMB234 million) (six months ended 30 June 2023: USD3 million (equivalent to RMB20 million)) was for acquisition of a cryptocurrency. In addition, the Group disposed of certain cryptocurrencies with an aggregate carrying amount of USD41 million (equivalent to RMB290 million) (six months ended 30 June 2023: nil), resulting in a gain on disposal of RMB51 million (six months ended 30 June 2023: nil) during the current interim period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

	<b>30 June 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
<b>Financial assets at FVTPL</b>		
– Unlisted funds (Note a)	<b>254</b>	248
– Unlisted equity investments (Note b)	<b>255</b>	205
– Listed securities	<b>124</b>	38
	<b>633</b>	491
Analysed for financial reporting purpose:		
Non-current	<b>509</b>	453
Current	<b>124</b>	38
	<b>633</b>	491
<b>Derivative financial instruments (under current liabilities)</b>		
– Unlisted warrants (Note c)	<b>1</b>	6
– Convertible and exchangeable option (Note 17)	<b>–</b>	–
– Embedded derivatives in convertible note (defined in Note 18)	<b>36</b>	101
	<b>37</b>	107

Notes:

- (a) 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 Mainland China. 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.
- (b) The unlisted equity investments represent the Group's investments in equity interests in certain private entities, which principally engaged in investments in cryptocurrencies, tokens, blockchain-based assets and other digital assets.
- (c) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 17.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 12. INVENTORIES

	<b>30 June 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
Raw materials	–	5
Finished goods	<u>269</u>	<u>400</u>
	<u><b>269</b></u>	<u><b>405</b></u>

## 13. 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 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
0 – 30 days	396	375
31 – 60 days	194	135
61 – 90 days	32	87
Over 90 days	<u>123</u>	<u>105</u>
	<u><b>745</b></u>	<u><b>702</b></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<b>30 June 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
Prepayments to third parties (Note a)	<b>195</b>	127
Refundable rental and guarantee deposits (Note b)	<b>92</b>	90
Other receivables from agents for acquisition of cryptocurrencies	<b>183</b>	75
Contract assets (Note c)	<b>32</b>	27
Other receivables and deposits	<b>108</b>	105
Other tax recoverable	<b>81</b>	79
Government grant receivables	<b>63</b>	63
Prepayments for investments (Note d)	<b>247</b>	246
Others	<b>18</b>	31
	<b><u>1,019</u></b>	<u>843</u>
Analysed for financial reporting purpose:		
Non-current	<b>352</b>	351
Current	<b>667</b>	492
	<b><u>1,019</u></b>	<u>843</u>

Notes:

- (a) The amounts mainly represent the prepaid for the operating activities of the Group, such as the purchase of goods and services, marketing and design fees and movie productions etc..
- (b) Included in refundable rental and guarantee deposits as at 30 June 2024 are balances of (i) RMB31 million (31 December 2023: RMB32 million) which represents deposits and prepayment for lease contracts paid to a related company, 福州楊振華851 生物工程技術研究開發有限公司 (Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.) ("Fuzhou 851") and (ii) RMB15 million (31 December 2023: RMB15 million) 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).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Cont'd)

Notes: (Cont'd)

- (c) The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on the provision of mobile solution, products and marketing services and retention receivables on education equipment and related goods. The contract assets are transferred to trade receivables when the rights become unconditional.
- (d) Amounts being prepayments are paid for certain investments whose completions are subject to certain terms and conditions as specified in relevant investment agreements. Out of the balance, RMB108 million (31 December 2023: RMB108 million) is non-refundable while the rest of the balance is refundable if certain conditions are not fulfilled during the pre-determined periods of time as set out in the respective investment agreements.

## 15. TRADE AND OTHER PAYABLES

	<b>30 June 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
Trade payables (Note a)	<b>462</b>	499
Accrued staff costs	<b>223</b>	361
Government grants (Note b)	<b>13</b>	14
Other tax payables	<b>29</b>	45
Payables for purchase of property, plant and equipment	<b>173</b>	194
Consideration payables	<b>17</b>	19
Accrued expenses	<b>66</b>	56
Dividend payable	<b>193</b>	66
Others (Note c)	<b>249</b>	301
	<b>1,425</b>	1,555
Analysed for financial reporting purpose:		
Non-current	<b>35</b>	37
Current	<b>1,390</b>	1,518
	<b>1,425</b>	1,555

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

Notes:

- (a) 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 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
0 – 90 days	<b>329</b>	223
91 – 180 days	<b>82</b>	216
181 – 365 days	<b>8</b>	31
Over 365 days	<b>43</b>	29
	<b>462</b>	499

- (b) 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 research and 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.
- (c) Others mainly represent advertising payables, office and server service expenses payables and other miscellaneous items for operating activities.

## 16. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounted to RMB863 million (six months ended 30 June 2023: RMB703 million). The bank borrowings as at 30 June 2024 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 2.30%, (iii) the United States Prime Rate plus 1.30%, (iv) interest rate of 1.00% to 3.75% per annum or (v) one-year Loan Prime Rate of China less 0.65% to 0.75% per annum. The secured portion of the Group's borrowings were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group, 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 2024

## 16. BANK BORROWINGS (Cont'd)

The bank borrowings as at 31 December 2023 carried interest at (i) one-month HIBOR plus 2.20% or 2.35% per annum, (ii) three-month BSBY Rate two business days prior to date of borrowing plus 1.85%, (iii) interest rate of 1.00% or 2.90% per annum or (iv) one-year Loan Prime Rate of China less 0.30% to 0.75% per annum. The secured portion of the Group's borrowings were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

## 17. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, Best Assistant Education Online Limited (the "Best Assistant"), an indirect 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 "Nurture Education"), an independent third party. Simultaneously, the Company issued unlisted warrants to the Nurture Education in March 2020.

The warrants shall entitle the Nurture Education to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds are exercisable at the option of bondholders, in whole or in part and can be exchangeable for ordinary shares of Mynd.ai at any time and from time to time during the exchange period. The convertible and exchangeable bonds bear interest accruing at a rate of 5.00% 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. 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 2023 and 30 June 2024.

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 2024</b>	31 December 2023
	<b>(Unaudited)</b>	(Audited and restated)
	<b>RMB million</b>	RMB million
At 1 January	<b>256</b>	1,333
Redemption (Note)	<b>–</b>	(1,254)
Interest accrued	<b>21</b>	211
Settlement of interest	<b>(4)</b>	(63)
Exchange adjustments	<b>1</b>	29
	<b>274</b>	256

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

Note: During the year ended 31 December 2023, out of the principal amount of USD150 million for the convertible and exchangeable bonds, Best Assistant redeemed a principal amount of USD125 million (equivalent to RMB889 million) at an aggregate consideration of USD198 million (equivalent to RMB1,410 million). Aggregate carrying amount of redeemed portion is approximately USD176 million (equivalent to RMB1,254 million). As a result, loss of redemption of the convertible and exchangeable bonds amounting to USD22 million (equivalent to RMB156 million) had been recognised in profit or loss during the year ended 31 December 2023.

As set out in Note 18, Nurture Education subscribed for a senior secured convertible note issued by Mynd.ai with an aggregate principal amount of USD65 million (equivalent to RMB461 million) on 13 December 2023. As agreed, principal amount of the senior secured convertible note has been deducted from the redemption amount of the convertible and exchangeable bonds issued by Best Assistant as set out above.

## 18. CONVERTIBLE NOTE

On 18 April 2023, the Group entered into a merger agreement with Mynd.ai, pursuant to which Mynd.ai would acquire 100% equity interest of the education business of the Group outside of the PRC, by the issues of 426,422,218 shares of new ordinary shares of Mynd.ai as consideration of the transactions (the "Merger").

Immediate after the completion of the Merger on 13 December 2023, Mynd.ai issued a senior secured convertible note (the "Convertible Note") in a principal amount of USD65 million (equivalent to RMB461 million) to Nurture Education. The Convertible Note bears (i) cash interest at the rate of 5.00% per annum and (ii) paid-in-kind ("PIK") interest at the rate of 5.00% per annum by way of issuing additional number of the Convertible Note equivalent to the PIK interest in the relevant year should the pre-determined conditions are fulfilled in the relevant year(s).

All of the cash interest and PIK interest (if any) is payable semi-annually in June and December of each year. Mynd.ai prepaid the cash interest due for the year ending 31 December 2024 at the time of issuance of the Convertible Note. PIK interest is payable by issuing additional notes.

The Convertible Note is denominated in USD.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 18. CONVERTIBLE NOTE (Cont'd)

### Convertible option

The Convertible Note is a senior secured obligation of Mynd.ai and will mature on 13 December 2028, unless earlier redeemed, repurchased or converted. The initial conversion rate per USD1 principal amount of the Convertible Note is equal to USD1 divided by 115% of the consideration per ordinary share of the Merger as defined under the Convertible Note agreement, or USD2.0226 (the "Initial Conversion Price"). The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Convertible Note. The Convertible Note is convertible at the option of the holder at any time until the outstanding principal amount (including any accrued and unpaid interest) has been paid in full. Subject to the terms of the Convertible Note, the holder may elect to receive the American Depositary Shares ("ADS") in lieu of the Mynd.ai's ordinary shares, par value USD0.001 per share upon conversion of the Convertible Note.

### Embedded derivative features of the Convertible Note

Certain features of the Convertible Note including the conversion option, redemption right at the Mynd.ai's election, and acceleration of amounts due under the Convertible Note upon an event of default require bifurcation and accounted for separately as embedded derivatives.

At initial recognition, the embedded derivative of the Convertible Note was classified as derivative financial instrument (Note 11). The fair value of the derivative financial instrument was RMB101 million and RMB36 million at 31 December 2023 and 30 June 2024, respectively.

The effective interest rate of the debt host component is 15.80%. The movements of the debt host component of the Convertible Note for the period/year is set out as below:

	<b>30 June 2024</b>	31 December 2023
	<b>(Unaudited)</b>	(Audited and restated)
	<b>RMB million</b>	RMB million
At 1 January/issue of Convertible Note	<b>357</b>	357
Interest accrued	<b>27</b>	1
Settlement of interest	<b>(12)</b>	–
Exchange adjustments	<b>3</b>	(1)
	<b>375</b>	357

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 19. SHARE CAPITAL OF THE COMPANY

	Number of shares	Nominal value	
		USD	RMB million
<b>Authorised:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2023, 30 June 2023, 31 December 2023 and 30 June 2024	<u>1,000,000,000</u>	<u>10,000,000</u>	<u>76</u>
<b>Issued and fully paid:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2023	540,743,633	5,407,436	40
Shares issued upon exercise of share options (Note a)	45,400	454	– #
Repurchase and cancellation of shares (Note b)	<u>(9,844,500)</u>	<u>(98,445)</u>	<u>(1)</u>
At 30 June 2023	<u>530,944,533</u>	<u>5,309,445</u>	<u>39</u>
Shares issued upon exercise of share options	<u>318,000</u>	<u>3,180</u>	<u>– #</u>
At 31 December 2023 and 30 June 2024	<u>531,262,533</u>	<u>5,312,625</u>	<u>39</u>

# less than RMB1 million

Notes:

- (a) During the six months ended 30 June 2023, 45,400 (six months ended 30 June 2024: nil) share options were exercised and as a result the same number of ordinary shares of the Company were issued.
- (b) During the six months ended 30 June 2023, the Company repurchased its own shares through purchases on the Stock Exchange. The shares had been subsequently cancelled.

During the six months ended 30 June 2023, the Company repurchased 9,844,500 shares (six months ended 30 June 2024: nil) of its own ordinary shares through the Stock Exchange with an aggregate consideration of RMB135 million (six months ended 30 June 2024: nil) paid. 9,844,500 (six months ended 30 June 2024: nil) shares were cancelled upon repurchase. At 30 June 2024 and 31 December 2023, the Company had no outstanding treasury shares.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 20. SHARE-BASED PAYMENT TRANSACTIONS

### (i) Equity-settled share option scheme

The Company adopted share option schemes on 12 June 2008 (the "2008 Share Option Scheme"), 24 May 2018 (the "2018 Share Option Scheme") and 6 June 2024 (the "2024 Share Option Scheme"). The 2008 Share Option Scheme and the 2018 Share Option Scheme were terminated on 24 May 2018 and 6 June 2024 respectively. Subject to early termination, the 2024 Share Option Scheme shall be valid and effective for a period of 10 years from 6 June 2024. As at 30 June 2024, the outstanding share options under the 2008 Share Option Scheme and 2018 Share Option Scheme were 300,000 and 5,300,000 respectively. The outstanding share options granted under the 2018 Share Option Scheme and the 2008 Share Option Scheme shall remain valid and exercisable according to the terms of the schemes. As at 30 June 2024, no share option were granted under the 2024 Share Option Scheme. The purpose of the 2024 Share Option Scheme is to provide the eligible participant ("Eligible Participant") as defined in 2024 Share Option 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 2023	6,523,000
Exercised during the year	(363,400)
Forfeited during the year	<u>(559,600)</u>
Outstanding as at 31 December 2023 and 30 June 2024	<b><u>5,600,000</u></b>

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HKD16.16 for the year ended 31 December 2023 (six months ended 30 June 2024: nil). The Group recognised the total expenses of less than RMB1 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB2 million) in relation to share options granted by the Company.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

### (ii) Share award scheme by the Company

The Company has adopted a share award scheme (the "2024 Share Award Scheme") on 6 June 2024 to replace the share award scheme adopted on 2 September 2008, 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").

No expenses were recognised by the Group for the six months ended 30 June 2023 and 2024 in relation to the Award.

Movements in the awarded shares granted during the year ended 31 December 2023 and the six months ended 30 June 2024 were as follows:

Name of category of participant	Date of grant	Outstanding at 1 January 2023	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2023 and 30 June 2024
Director	27 July 2023	-	240,000	(240,000)	-	-
Director	27 October 2023	-	120,000	(120,000)	-	-
		<u>-</u>	<u>360,000</u>	<u>(360,000)</u>	<u>-</u>	<u>-</u>

The closing price of the shares immediately before the date on which the awards were granted to Dr. Leung Lim Kin, Simon on 27 July 2023 and 27 October 2023 was HKD15.08 and HKD13.74, respectively.

The fair value of the awarded shares granted on 27 July 2023 and 27 October 2023 was HKD3,696,000 and HKD1,668,000, respectively.

No awarded share is granted or vested under the 2024 Share Award Scheme during the six months ended 30 June 2024.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

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

On 7 August 2012, Best Assistant, a subsidiary of the Company, adopted a share award scheme (the "Best Assistant Share Award Scheme") as amended on 13 February 2015 and 5 August 2022 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 less than RMB1 million for the six months ended 30 June 2023 (six months ended 30 June 2024: nil) in relation to this share award.

Movements in the awarded shares granted by Best Assistant during the year ended 31 December 2023 and the six months ended 30 June 2024 were as follows:

Name of category of participant	Date of grant	Outstanding at 1 January 2023	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2023 and 30 June 2024
Other employees	1 July 2019	80,000	-	(80,000)	-	-
Director	12 December 2023	-	123,409,543	(123,409,543)	-	-
Other employees	12 December 2023	-	40,056,514	(40,056,514)	-	-
		<u>80,000</u>	<u>163,466,057</u>	<u>(163,546,057)</u>	<u>-</u>	<u>-</u>

The Best Assistant Share Award Scheme was terminated on 3 May 2024. No awarded share is granted or vested under the Best Assistant Share Award Scheme during the six months ended 30 June 2024.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

### (iv) Equity incentive plan of a subsidiary of the Company

In January 2024, the Mynd.ai's Board of Directors approved the Mynd Incentive Plan. Under the Mynd Incentive Plan, awards may be granted to officers, employees and consultants of Mynd.ai or any of its affiliates in the form of stock options, restricted shares, RSUs, stock appreciation rights, performance stock, performance stock units and other awards. The maximum aggregate number of ordinary shares that was initially authorised for issuance under the Mynd Incentive Plan is 54,777,338, together with a corresponding number of ADS.

On 10 April 2024, the Mynd.ai's Board of Directors awarded RSUs under the Mynd Incentive Plan, representing an aggregate of 3,501,350 ADSs, to certain directors, executive officers and employees that vest over specified time periods, subject to the recipient's continued service. As at 30 June 2024, Mynd.ai had outstanding share-based awards representing 3,461,171 ADSs.

During the six months ended 30 June 2024, Mynd.ai recorded share-based compensation expenses of RMB8 million (equivalent to USD1 million) in general and administrative expenses in the condensed consolidated statements of profit or loss and other comprehensive income. As at 30 June 2024, total unrecognised compensation expense related to unvested awards was RMB89 million, which is expected to be recognised over a weighted-average period of 2.67 years.

## 21. 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 2024

## 21. 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 2024 (Unaudited) RMB million	31 December 2023 (Audited) RMB million				
<b>Financial assets</b>						
Equity instruments at FVTOCI – Listed equity securities	2	3	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI – Unlisted equity securities	30	42	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 12.49% (31 December 2023: 14.83%).	The higher the discount rate, the lower the fair value.
Financial assets at FVTPL – Listed securities	124	38	Level 1	Quoted bid prices in an active market	N/A	N/A
Financial assets at FVTPL – Unlisted funds	254	248	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	255	205	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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 21. 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 2024 (Unaudited) RMB million	31 December 2023 (Audited) RMB million				
<b>Financial liabilities</b>						
Derivative financial instruments – Convertible and exchangeable option	–	–	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 51.68% (31 December 2023: 59.56%) 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	1	6	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 39.17% (31 December 2023: 42.18%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Derivative financial instruments – Convertible note	36	101	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 62.0% (31 December 2023: 56.0%) 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 2024

## 21. 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>Equity instruments at FVTOCI</b>	<b>Financial assets at FVTPL</b>
	RMB million	RMB million
At 1 January 2023 (audited)	50	236
Additions	–	51
Fair value changes	–	23
Disposal	–	(41)
Exchange adjustments	–	10
	<u>50</u>	<u>279</u>
At 30 June 2023 (unaudited)	<u>50</u>	<u>279</u>
At 1 January 2024 (audited)	<b>42</b>	<b>205</b>
Fair value changes	<b>(12)</b>	<b>53</b>
Others	–	<b>(4)</b>
Exchange adjustments	–	<b>1</b>
	<u>30</u>	<u>255</u>
At 30 June 2024 (unaudited)	<u>30</u>	<u>255</u>

Fair value gains or losses on financial assets at FVTPL are included in "fair value change on financial assets at fair value through profit or loss".

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 21. 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>
	RMB million
At 1 January 2023 (audited)	31
Fair value changes	<u>(15)</u>
At 30 June 2023 (unaudited)	<u>16</u>
At 1 January 2024 (audited)	<b>107</b>
Fair value changes	<b><u>(70)</u></b>
At 30 June 2024 (unaudited)	<b><u>37</u></b>

Fair value gains or losses on derivative financial instruments are included in "fair value change 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 2024

## 22. RELATED PARTY TRANSACTIONS

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

### (a) Related party transactions and balances

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:

Name of related parties	Relationship
Fuzhou 851	DJM, the immediate holding company of the Company, and Dr. Liu Dejian, executive director and beneficial owner of the Company, has 100% equity interest in this entity.
福州市言樂文化傳媒有限公司 ("Fuzhou Yanle")	Fuzhou Yanle is a joint venture of the Group which the Group holds 30% of the issued share capital in this entity.
福建省數據治理與數據流通 工程研究院有限公司 ("Fujian Data")	Fujian Data is an associate of the Group which the Group holds 19% of the issued share capital in this entity.
福建省國騰信息科技有限公司 ("Guoteng")	Guoteng is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.

Nature of transactions	Six months ended 30 June	
	2024 (Unaudited) RMB million	2023 (Unaudited) RMB million
Promotional expense to Fuzhou Yanle	2	–
Education management fee to Fujian Data	2	–
Service revenue from Guoteng	–	(1)
Technical service fee to Guoteng	1	–

As at 30 June 2024, amounts due from joint ventures (included in other receivables, prepayments and deposits) are RMB7 million (31 December 2023: RMB7 million). As at 30 June 2024 and 31 December 2023, 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 2024

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

### (a) Related party transactions and balances (Cont'd)

Saved as disclosed above, the Group had continuing connected transactions during the period, including (i) service fee paid to Fuzhou 851 of RMB4 million (six months ended 30 June 2023: RMB6 million) and (ii) a lease agreement entered with Fuzhou 851 with the lease term till 2024 for the use of office premise located in the PRC. During the period, the Group have made repayment of the lease liabilities of RMB11 million (six months ended 30 June 2023: RMB3 million). As at 30 June 2024, the corresponding carrying amount of the lease liabilities is RMB103 million (31 December 2023: insignificant).

### (b) Compensation of key management personnel

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

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB million</b>	RMB million
Salaries, allowances and other short-term employee benefits	<b>38</b>	92
Share-based payments expense	<b>–</b>	2
	<b>38</b>	94

The remuneration of directors and key executives 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 2024

## 23. 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 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
Capital expenditure in respect of:		
– Capital injection in joint ventures	<b>606</b>	609
– Acquisition of property, plant and equipment	<b>124</b>	128
– Properties under development projects	<b>374</b>	383
	<b>1,104</b>	1,120