NetDragon

# 2020 ANNUAL 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

# CONTENTS



CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Executive Directors

Mr. Liu Dejian *(Chairman)*
Dr. Leung Lim Kin, Simon *(Vice Chairman)*
Mr. Liu Luyuan *(Chief Executive Officer)*
Mr. Zheng Hui
Mr. Chen Hongzhan

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung, Eddie
Mr. Liu Sai Keung, Thomas

## COMPLIANCE OFFICER

Mr. Liu Luyuan

## COMPANY SECRETARY

Mr. Lau Hak Kin

## QUALIFIED ACCOUNTANT

Mr. Yam Kwok Hei Benjamin, *HKICPA, CA, CFA*
Mr. Lau Hak Kin, *HKICPA, FCCA, CFA*

## AUDIT COMMITTEE

Mr. Chao Guowei, Charles *(Chairman of the Committee)*
Mr. Lee Kwan Hung, Eddie
Mr. Liu Sai Keung, Thomas

## REMUNERATION COMMITTEE

Mr. Lee Kwan Hung, Eddie *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Liu Sai Keung, Thomas

## NOMINATION COMMITTEE

Mr. Liu Sai Keung, Thomas *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung, Eddie

## SHARE AWARD SCHEME COMMITTEE

Mr. Lee Kwan Hung, Eddie *(Chairman of the Committee)*
Mr. Liu Sai Keung, Thomas
Mr. Yam Kwok Hei Benjamin
Mr. Lau Hak Kin

## AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Mr. Lau Hak Kin

## HONG KONG LEGAL ADVISER

Jingtian & Gongcheng LLP

## PRC LEGAL ADVISER

Jingtian & Gongcheng

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors

# CORPORATE INFORMATION

## PRINCIPAL BANKERS

Bank of America
China Minsheng Banking Corp Ltd.
The Hong Kong and Shanghai Banking Corporation Limited

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE IN PRC

851 Building,
58 Wenquan Branch Road,
Fuzhou

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2001-05 & 11, 20/F.
Harbour Centre, 25 Harbour Road
Wan Chai, Hong Kong

## COMPANY WEBSITE

www.nd.com.cn

# GROUP FINANCIAL SUMMARY

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

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | **2020** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| **Revenue** | 2,793,103 | 3,867,623 | 5,037,539 | 5,793,075 | **6,137,640** |
| Cost of revenue | (1,203,234) | (1,687,860) | (1,990,298) | (1,937,823) | **(1,966,376)** |
| **Gross profit** | 1,589,869 | 2,179,763 | 3,047,241 | 3,855,252 | **4,171,264** |
| Other income and gains | 163,018 | 95,393 | 118,189 | 139,568 | **230,884** |
| Impairment loss under expected credit loss model, net of reversal | – | (275) | (11,717) | (26,491) | **1,607** |
| Selling and marketing expenses | (519,662) | (624,716) | (697,871) | (915,754) | **(893,513)** |
| Administrative expenses | (720,967) | (734,560) | (853,180) | (883,083) | **(903,111)** |
| Development costs | (759,932) | (844,076) | (922,867) | (1,075,400) | **(1,175,928)** |
| Other expenses and losses | (61,134) | (100,134) | (150,308) | (307,820) | **(326,817)** |
| Share of losses of associates | (862) | (822) | (1,370) | (4,936) | **(15,080)** |
| Share of losses of joint ventures | – | (567) | (1,717) | (3,370) | **(1,783)** |
| Provision for product impairment | (77,774) | – | – | – | **-** |
| **Operating (loss) profit** | (387,444) | (29,994) | 526,400 | 777,966 | **1,087,523** |
| Interest income on pledged bank deposits | – | 2,558 | 3,607 | 3,181 | **3,263** |
| Exchange (loss) gain on financial assets at fair value through profit or loss, pledged bank deposits, bank borrowings, convertible preferred shares, convertible and exchangeable bonds and derivative financial instruments | (21,824) | 3,250 | (10,030) | (1,052) | **45,302** |
| Fair value change on convertible preferred shares | 193,357 | 2,809 | 60,659 | 110,697 | **-** |
| Fair value change on financial assets at fair value through profit or loss | – | – | – | 219 | **51,733** |
| Fair value change on derivative financial instruments | – | – | – | – | **43,323** |
| Net loss on disposal of property held for sale | – | – | (68) | – | **-** |
| Net fair value gain on held for trading investment | 15,799 | 58 | – | – | **-** |
| Finance costs | (8,650) | (10,409) | (12,415) | (24,742) | **(157,680)** |
| **(Loss) profit before taxation** | (208,762) | (31,728) | 568,153 | 866,269 | **1,073,464** |
| Taxation | (28,022) | (57,209) | (91,349) | (163,214) | **(217,644)** |
| **(Loss) profit for the year** | (236,784) | (88,937) | 476,804 | 703,055 | **855,820** |

# GROUP FINANCIAL SUMMARY

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

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | **2020** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Attributable to: | | | | | |
| – Owners of the Company | (202,742) | (20,843) | 545,573 | 807,212 | **953,501** |
| – Non-controlling interests | (34,042) | (68,094) | (68,769) | (104,157) | **(97,681)** |
| (Loss) profit for the year | (236,784) | (88,937) | 476,804 | 703,055 | **855,820** |
| **(Loss) earnings per share** | | | | | |
| – Basic (RMB cents) | (40.93) | (4.12) | 102.42 | 152.68 | **171.19** |
| – Diluted (RMB cents) | (40.93) | (4.12) | 102.27 | 152.17 | **170.96** |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | **2020** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Non-current assets | 2,996,874 | 3,140,286 | 3,391,027 | 3,667,822 | **3,869,904** |
| Current assets | 1,782,094 | 2,695,371 | 3,354,915 | 4,089,088 | **6,123,311** |
| Non-current liabilities | (234,603) | (314,990) | (464,570) | (492,756) | **(1,380,607)** |
| Current liabilities | (716,088) | (1,036,606) | (1,482,392) | (1,903,106) | **(1,960,678)** |
| Non-controlling interests | 25,552 | 65,106 | 133,824 | 235,273 | **155,414** |
| Equity attributable to owners of the Company | 3,853,829 | 4,549,167 | 4,932,804 | 5,596,321 | **6,807,344** |

# CHAIRMAN'S STATEMENT

Dear Shareholders,

2020 is an extraordinary year as the pandemic that swept across the world has changed our lives completely. While the pandemic has presented challenges and opportunities, both in unprecedented ways, we were proud to be able to rise above the challenges and capitalise on the opportunities. In 2020, we achieved revenue growth for the 10th consecutive year. Our operating profit was also up 39.8% year-over-year to a record high of RMB1.1 billion. Our cashflow continues to be healthy, as our cash inflow from operating activities grew 13.1% to RMB1.3 billion.

## GAMING

While the pandemic has led to an impact on our revenue growth in the first half, our gaming business sustained solid revenue growth for the full year as the economy continued to recover from the pandemic. Our gaming revenue picked up in the second half of the year with an 8.4% increase half-over-half, and we expect this momentum to carry on to 2021.

During the year, we continued to drive growth in a balanced fashion by strengthening our resources to develop new titles, update contents in existing titles, as well as expand our go-to-market capabilities. In particular, we aggressively picked up our effort in generating frequent high-quality content update to drive user activities, and as a result, the MAU and DAU of our flagship game Eudemon Online surged 49% and 46% respectively year-over-year. This laid a solid foundation for generating long-term growth of the Eudemons IP, as we aim to grow this IP both horizontally and vertically by expanding our Eudemons IP series, developing a brand new next-generation Eudemons games to target a broader audience (especially Generation-Z players), and diversifying into different genres.

Our marketing and promotion efforts for our other major IPs including Heroes Evolved and Conquer Online during the year also produced fruitful results. Through collaborating with two well-known anime, OVERLORD and That Time I Got Reincarnated as a Slime, Heroes Evolved saw fast growth in ACGN and high-quality users, forming a strong user base for future monetisation. The revenue of Conquer Online meanwhile rose 6.3% to hit another record high.

Looking forward, we will adopt a multi-pronged growth strategy, including maximising our IP values through launching new games and entering into new genres, as well as expanding our IP portfolio and IP collaboration. We will also double down on expanding our overseas gaming revenue. Our future growth is well supported by a robust pipeline with a series of new games scheduled to be launched in 2021. These include Eudemons Mobile II, Legends of Eudemons, Neopets Match 3, Neopets Island Builders and our new IP mobile game Under Oath.

## EDUCATION

The pandemic has turned blended learning into both a necessity and a "new normal", as students, parents and educators around the world were all put into a position to adopt, adapt and embrace this new learning model. Thanks to our years of research and development effort, our one-stop blended learning solutions have enabled us to capitalise on this new market opportunity to address the holistic edtech needs of countries around the world. We believe 2020 is a year of validation of our country model, as we succeeded in commencing our first country-wide rollout in Egypt, as well as expanding our model into a growing list of countries such as Thailand, Ghana and Malaysia.

Our flagship classroom technology subsidiary Promethean continued to maintain its global market leadership position with 24.6% global market share[1], thanks to our unique product value proposition, a well-established and growing channel of distributors and partners, as well as our unparalleled brand equity. The pandemic has led to some impact on Promethean's revenue growth in the first half, but as we successfully transitioned to a virtual sales and marketing model, Promethean experienced strong momentum in the second half of 2020 as its revenue grew by 8.0% half-over-half, and continued to maintain its global market leadership position, being number one in market share in eight of our top ten countries by revenue contribution.

In China, we expanded the user coverage of multiple products during the year to pave way for scaling up our monetisation initiatives. The monthly teachers' active installed base of our 101 Education PPT reached over 1.5 million in December 2020, making it one of the most popular lesson preparation and delivery platforms in China. The average MAU of our flagship education platform One-Stop Learning meanwhile surged tenfold to 2 million in 2020, as we expanded this platform into nine provinces during the year, including the provinces of Hubei, Henan and Shaanxi where we are selected as their respective Ministries of Education's official provincial education platforms.

As part of our vision to make quality education accessible to everyone, we also entered into a partnership with UNESCO in July 2020 with the aim of promoting inclusive and equitable education around the world via the use of education technologies. We expect this partnership will enable us to further broaden our reach and impact as we continue to pursue our country strategy on a global scale.

1 Market share in terms of K12 interactive flat panels shipment volume in international markets, ie. global market excluding China (Source: Futuresource report, 2020 Qtr4)

# CHAIRMAN'S STATEMENT

## LOOKING AHEAD

Building on our achievements in 2020, we look forward to a strong growth trajectory ahead in 2021. With our new game launches, the country rollouts of our blended learning solutions, as well as monetisation initiatives of our several education platforms, we are excited to be in a unique position to capitalise on the opportunities ahead.

I would like to thank our Board of Directors, shareholders, employees and business partners for their unwavering support over the years. I look forward to another exciting year ahead, and together, building global communities which we will all benefit from.

**Liu Dejian**
*Chairman*

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) FINANCIAL HIGHLIGHTS AND REVIEW

Fiscal Year 2020 Financial Highlights

- Revenue was RMB6,137.6 million, representing a 5.9% increase year-over-year.
- Revenue from the games business was RMB3,432.7 million, representing 55.9% of the Group's total revenue and registering a 4.0% increase year-over-year.
- Revenue from the education business was RMB2,443.9 million, representing 39.8% of the Group's total revenue and registering a 2.0% increase year-over-year.
- Gross profit was RMB4,171.3 million, representing an 8.2% increase year-over-year.
- Core segmental profit[1] from the games business was RMB1,963.5 million, representing a 2.1% increase year-over-year.
- Core segmental loss[1] from the education business was RMB585.5 million, representing an 11.6% increase year-over-year.
- Cash inflow from operating activities was RMB1,329.7 million, representing a 13.1% increase year-over-year.
- EBITDA was RMB1,621.5 million, representing a 30.2% increase year-over-year.
- Non-GAAP operating profit[2] was RMB1,314.8 million, representing a 24.0% increase year-over-year.
- Profit attributable to owners of the Company was RMB953.5 million, representing an 18.1% increase year-over-year.
- Non-GAAP profit attributable to owners of the Company[2] was RMB1,142.3 million, representing a 19.6% increase year-over-year.
- The Company declared a final dividend of HKD0.25 per ordinary share (2019: HKD0.25 per ordinary share), subject to approval at the coming annual general meeting. Total dividends for the year amounted to HKD0.50 per ordinary share (2019: HKD0.40 per ordinary share), representing approximately 25.9% of the total profit attributable to the owners for the year. During the year, the Group repurchased over 7.5 million ordinary shares, which accounts for 1.3% of issued shares as of 31 December 2020, for a total consideration of approximately HKD128.0 million. The total dividends plus share buy-backs for the year accounted for 37.3% of the profit attributable to the owners for the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

Segmental Financial Highlights

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

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

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

## (2) BUSINESS REVIEW AND OUTLOOK

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Gaming Business

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

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

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

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

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

### Education Business

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

Education Business (Continued)

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

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

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

### Corporate Milestones and Awards in 2020

| Year 2020 | Corporate Development Milestones/Recognitions |
|---|---|
| May | Fujian Province Huayu Education Technology Co. Ltd.* (福建省華漁教育科技有限公司) ("Fujian Huayu") was awarded "Unicorn Enterprise"* (獨角獸企業) by the Office of the Construction Leading Group of Digital Fujian of Fujian Province (福建省數字福建建設領導小組辦公室) |
| June | Fujian NetDragon Websoft Co. Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") was awarded "2020 Fujian Provincial Leading Enterprise in Industry and Information Technology"* (2020年福建省工業和信息化省級龍頭企業) by the Department of Industry and Information Technology of Fujian Province (福建省工業和信息化廳) |
| | Fujian TQ Digital Inc. (福建天晴數碼有限公司) ("TQ Digital") was awarded "2020 Fujian Provincial Leading Enterprise in Industry and Information Technology"*「2020年福建省工業和信息化省級龍頭企業」by the Department of Industry and Information Technology of Fujian Province (福建省工業和信息化廳) |
| July | Fujian Huayu was awarded "2020 China Internet Education Unicorn Enterprise" (2020年中國互聯網教育獨角獸企業獎) by Distance Education in China (中國遠程教育雜誌社) and China Internet Education New Champions Conference (中國互聯網教育領軍會) |
| | Fujian Huayu was awarded "2020 Quality Solution for Internet Education in China" (2020年中國互聯網教育優質解決方案獎) by Distance Education in China (中國遠程教育雜誌社) and China Internet Education New Champions Conference (中國互聯網教育領軍會) |
| August | NetDragon (Fujian) was awarded "2020 Top 100 Privately Owned Enterprises in Fujian Province"* (2020年福建省民營企業100強) by Fujian Province Federation of Industry and Commerce (福建省工商業聯合會) |
| September | NetDragon (Fujian) was awarded "30 Internet Enterprises in Fujian Province" (福建省互聯網企業30強) by Fujian Internet Society (福建省互聯網協會) |
| | NetDragon (Fujian) was awarded the "2020 Top 500 Enterprises in the Service Industry in China"* (2020年度中國服務業企業500強) by China Enterprise Confederation (中國企業聯合會) and China Enterprise Directors Association (中國企業家聯合會) |

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

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

**Corporate Milestones and Awards in 2020** (Cont'd)

| **Year 2020** | **Corporate Development Milestones/Recognitions** |
|---|---|
| October | NetDragon (Fujian) was awarded the "2020 Top 50 VR Enterprises in China"* (2020年中國VR 50強企業) by the Ministry of Industry and Information Technology (工業和信息化部) and Jiangxi Provincial People's Government (江西省人民政府) |
| | NetDragon (Fujian) was awarded the "2020 Top Ten Cultural Enterprises in Fujian Province" (2020年度福建省文化企業十強) by the Cultural Reform and Development Work Leading Group in Fujian Province (福建省文化改革發展工作領導小組) |
| | NetDragon (Fujian) was awarded the "Top 100 Key Research Enterprises of Leading Enterprises in the Internet Industry" (100家重點研究企業(互聯網領軍企業)) by the Information Center of Ministry of Industry and Information Technology (工業和信息化部信息中心) |
| | NetDragon (Fujian) was awarded the "Top 100 Internet Enterprises in Comprehensive Strength in China" (中國互聯網綜合實力百強企業) by Internet Society of China (中國互聯網協會) |
| November | NetDragon (Fujian) was awarded the "Best 20 Games Companies in China in Fulfilling Social Responsibilities" (2019-2020) (2019至2020年度中國遊戲企業社會責任二十佳) by People.cn (人民網) |
| | NetDragon Websoft Holdings Limited (the "Company") was awarded the "2020 Global Trends-Gold Medal (Performing Responsibilities) (2020年環球「金趨勢獎」年度責任踐行獎) by Huanqiu.com (環球網) |
| | The Company was awarded the "Listed Enterprises of the Year 2020" (年度上市企業2020) by Bloomberg Businessweek (Chinese Edition) (彭博商業周刊中文版) |
| | Fujian Huayu was awarded the "2020 BooAoo Award – Integrated Products and Services Provider" (2020年博奧獎 – 綜合產品服務商) by online-edu (在綫教育資訊網) |

* *For identification purpose only*

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

**Corporate Milestones and Awards in 2020** (Cont'd)

| **Year 2020** | **Corporate Development Milestones/Recognitions** |
|---|---|
| | NetDragon (Fujian) was awarded "Top 100 Enterprises with Competitiveness in Software and Information Technology Service 2020"* (2020年度軟件和信息技術服務競爭力百強企業) by China Information Technology Industry Federation (中國電子信息行業聯合會) |
| December | The Company was awarded the "Market's Most Recognised Brand of China Education Capital Forum 2020" (2020年中國教育資本論壇最具市場認可獎) by the Securities Daily (證券日報) |
| | NetDragon (Fujian) was awarded the "Charity Award in the Internet Industry (2018-2020) (2018至2020年度互聯網行業公益獎) by Internet Society of China (中國互聯網協會) |
| | The Company was awarded the "Hong Kong Stocks Top 100-New Economy Technology Company" (港股100強－新經濟科技公司) by the Top 100 Hong Kong Listed Companies Research Centre (港股100強研究中心) and Finet (財華社) |
| | NetDragon (Fujian) was awarded the"Excellent Enterprise of the Game Industry in China 2020" (2020年度中國遊戲行業優秀企業) by Golden Thumb Award Adjudication Committee (金手指獎評審委員會) |

## (3) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2020, the Group had restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances and cash of approximately RMB4,309.1 million (31 December 2019: RMB2,286.5 million).

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

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

## (4) GEARING RATIO

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

## (5) CAPITAL STRUCTURE

As at 31 December 2020, the Group's total equity amounted to approximately RMB6,651.9 million (2019: RMB5,361.0 million).

## (6) CONTINGENT LIABILITIES

As at 31 December 2020 and 2019, the Group did not have any material contingent liabilities.

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

Save as disclosed in this annual report, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures as at 31 December 2020.

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

## (8) FOREIGN CURRENCY RISK

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

## (9) CREDIT RISK

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk of trade receivables, contract assets, other receivables, refundable rental deposits and loan receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under expected credit loss ("ECL") model upon application of HKFRS 9 on trade balances based on provision matrix, and trade receivables and contract assets which are credit-impaired are assessed for ECL individually.

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

The Group regularly monitors the business performance of the associates, joint ventures and related companies. 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 no loss allowance was recognised.

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

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

## (10) LIQUIDITY RISK

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

# CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

## CORPORATE CULTURE

Passion

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

Learning

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

Innovation

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

Aggressiveness

We are featured by aggressiveness. We like to distinguish ourselves by mastering opportunities, expressing opinions and ideas, being responsible for or participating in the projects which arouse our interest, gaining resources and support to win market opportunities and honestly communicating with others on development requirement. We believe that if everyone volunteers to put up their hands, internal impetus and team power will be inspired to expand our business.

Pursuit of excellence

Pursuit of excellence is a working standard for our staff. We aim for high aspirations and excellence, self-challenge and surpassed expectations. We plan several steps ahead, striving to provide customers with the highest quality products and services, and constantly challenge our own potentials while doing our best.

Fairness

Fairness is the working atmosphere we promote. The Group strives to create a working atmosphere with fair allocation, fair procedures, public information and mutual respect. Through a public process and open supervision, the Group ensures that results are fair and hopes that all employees can treat everything and everyone objectively and equally.

Customer comes first

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

# STAFF RELATIONSHIP AND WELFARE

## HUMAN RESOURCES

The Group had its overall staff headcount of 6,442 as of 31 December 2020.

1. In 2020, a large number of talents in professional field were attracted by integrating our corporate strategies and objectives and leveraging the extensive business platform and fast developed business trend of the Group. A total of 1,132 talents in the areas of games and education were recruited across the year, up by 24.4% as compared to 2019. In the second half of the year, the Group carried out national-wide online promoting campaigns for campus recruitment at key renowned higher education institutions, which attracted attention from elite graduates in and outside China. Meanwhile, we continued the "NetDragon Pilot Programme (網龍領航員計劃)" to look for elites and continued to inject new blood into the Company. Moreover, in respective of on-campus recruitment brand, we were awarded the honour of Most Intelligent Employer of the Year of "2020 Best Employer" and "2020 Best Employer and Campus Recruitment Case of the Year" jointly organised and evaluated by Zhaopin.com and Social Survey and Research Center of Peking University, the "2020 Human Resources Management Excellent Award" awarded by 51job.com and the honour of "Outstanding Employer in CSR Practice" awarded by Liepin.

2. In the midst of Covid-19 global pandemic, in order to maintain harmonious and stable labour relations in extraordinary times, the Company effectively responded to the pandemic and implemented pandemic management and control by establishing the emergency working group in quick response to requirements, monitoring government policies during the COVID-19 pandemic, establishing a daily health checking system for employees and implementing protective measures for Covid-19 pandemic.

3. In 2020, the Company vigorously promoted AI-based management. Apart from continuous efforts in creating AI assistants to assist employees in self-management, we promoted AI employees to perform highly repetitive tasks with clear operating standards that were otherwise performed by our employees to enhance organisational efficiency and free our employees up to focus on tasks with higher added value. Meanwhile, we developed a digital board for human resources management to achieve data-driven management and provide managers with objective advice in supporting their decision-making for management. These will enable us to keep developing corporate culture and organisational climate of NetDragon that embodies the principles of fairness, transparency and openness.

4. In respect of talent development, we focus on developing the system of staff management. We promoted the practice of the philosophy of corporate affairs management in the selection, development and retention of employees. We clarified the requirements for management staff in managing affairs to ensure management of corporate affairs by management staff and track management staff in meeting our requirements for management. We developed our employee database that contains events and behaviors of our employees and carried out various talent-review such as the 360 Employee Evaluation to assess performance and contributed by our employees in a more comprehensive and objective manner. With these measures, we can work better in selecting employees and upgrading talents. Furthermore, organisational and business needs for talents are satisfied by developing a management system that is more efficient and flexible in meeting needs of recruitment, establishing a talent pool, and implementing various measures including certification framework for employees, implementing the policy that required employees to obtain certificates necessary for performing respective duties and integration between industries and schools.

# STAFF RELATIONSHIP AND WELFARE

5. Based on our management principles that focus on performance management, we launched a new attendance system, by which employees other than those providing services are exempted from clock in and out for attendance, which is a conventional attendance model. We provided employees with flexible working hours that can lead to increased productivity. Meanwhile, in order to guide employees to focus on working performance, we developed the assessment system that focused on the work output, by which we will assess the contributions by employees based on work output.

6. In talent retention and motivation, the Company developed differentiated remuneration strategies that were based on sustained attention to remuneration development in the market. Focusing on high value positions such as management personnel and senior technical professionals, the Group aimed at attracting and retaining core talents as the subject of corporate value creation. In order to fully unleash the driving force of the short-term incentives and due to sustained attention to its effectiveness, collation and improvements were made for the incentives. We developed a platform that provides incentives for innovation with optimised procedures in relation to incentives for innovation and supports standardisation and transparency of incentives for innovation to encourage innovation within the Company. Thanks to continuous improvement of the corporate welfare system, the Group was awarded the accreditation for "Healthy Workplace (Diamond Status)" (健康場所鑽石級) jointly organised and assessed by the HR Excellence Center and the Health Communication Institute of Fudan University.

7. A human resources share service centre (SSC) was established. Through building up the SSC service platform, providing 24-hour smart device, building up a standardised service system and promoting intelligent workflow, we provided effective and convenient services to employees and assisted in human resources management strategy upgrade by promoting streamline of workflow, division of labour in an orderly manner and reduction of cost and enhancement of efficiency, thereby enhancing organisational efficiency.

## WORKING ENVIRONMENT

The Group provides all its staff with a friendly and enjoyable working environment which is spacious and offers diversified staff facilities, including canteen, café, activities rooms, indoor and outdoor swimming pools, football pitch, basketball court, badminton court, tennis court, squash court and fitness centre. Such a pleasant working environment does not only improve the sense of belonging among its staff, but also helps enhance their working efficiency and creativity. The Group also organises various staff activities such as the Carnival, 1/4 Marathon and New Year Gala.

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

Liu Dejian, aged 49, Chairman of the Board and Executive Director

Mr. Liu led us to become one of the leading online game and mobile Internet operations companies in PRC. He is mainly responsible for the overall business strategic development of the Group and is the chief game designer of our game development team. Mr. Liu leads the game development team on the design of the online game products. He formulates the development policy and contributes to the growth of the Company as a competitive online game operator and developer. Currently, Mr. Liu is committed to lead the Company's transformation to an international design-oriented enterprise, and actively promoting Internet education, leading the Group to become China's leading online education industry force. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. Under his leadership, the Group was honoured as the "Top 30 Cultural Enterprises in the PRC" (全國文化企業三十強) for three consecutive years and as "Top 100 Internet Enterprises in PRC" (中國互聯網企業百強) for eight consecutive years. The Group was also honoured as "Top 2000 Forbes Global business" (福布斯全球企業兩千強) in May 2014, "Third Award of Top 100 Forbes Potential Enterprises in PRC" (福布斯中國潛力企業百強榜第三名), and "Top 100 National Software Comprehensive Competitiveness Enterprises" (全國軟體企業綜合競爭力百強) in 2015.

Mr. Liu graduated with a Bachelor's degree of Science in Chemistry from University of Kansas in the USA in 1995. Prior to starting Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"), Mr. Liu had been the vice-president of Beso Biological Research Centre, Inc ("Beso") from 1995 to 2005. He was also the vice-president of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") from 1995 to 2000 and then promoted to be the president since 2001. Mr. Liu was first introduced to the technology of Internet during his study in the USA when he established a website for marketing of softwares. Anticipating that Internet would have a good development opportunity in the PRC, he founded NetDragon (Fujian) in 1999 when he came back to the PRC.

Mr. Liu was awarded as the "Most Influential Person within the Online Game Industry in China in the Chinese Game Industry Annual Conference 2009" in January 2010 (2009年度中國遊戲產業最具影響力人物). He was also awarded as "Excellent Entrepreneur of China Game Industry"* (中國遊戲行業優秀企業家) in the China Game Industry Annual Conference in December 2009. He was appointed as vice-chairman of Fujian Province Association of Youth Entrepreneur* (福建省青年企業家協會) in April 2006. He also obtained Fujian Youth Entrepreneur Achievement Award* (福建青年創業成就獎) in April 2005, Go Tone Fujian IT Industry Top 10 Outstanding Youth* (全球通福建IT行業十大傑出青年) in May 2005, Certificate of Fujian Entrepreneurial Tutor of the Chinese Youth Business International Programme* (中國青年創業國際計劃福建創業導師證書) in June 2005, Fujian Youth Technology Award* (福建省青年科技獎) in March 2010, Software Outstanding Talent in Fujian Province* (福建省軟件傑出人才) in September 2010 and Entrepreneurial Excellence Award in Haixi* (海西創業英才獎) in April 2012, and he was appointed as a member of the Second Council of The Association for Redound Reposal, Fujian (福建省誠信促進會第二屆理事會) in July 2012. Mr. Liu received the Management Talent Award* (領軍人物獎) in June 2011, Fujian

* *For identification purpose only*

# DIRECTORS AND SENIOR MANAGEMENT

Business Building Haixi Outstanding Contribution Award* (福建閩商建設海西突出貢獻獎) and Fujian Donations of Non-public Ownership Economy Welfare Outstanding Contribution Award* (福建非公有制經濟人士捐贈公益事業突出貢獻獎) in June 2013. Mr. Liu was awarded as the Entrepreneur of the Year in Entrepreneur Conference of CYZONE* (創業邦年會年度創業人物) in November 2013. As the developer of "91 assistant" software first person, Mr. Liu received the Progress Prize Second Award in Fujian Province Science and Technology* (福建省科學技術進步二等獎) in January 2014. Mr. Liu was awarded the Special Allowance Expert in State Council* (國務院特殊津貼專家) in January 2015, the Publishing Award for Outstanding People in Fujian Province* (福建省優秀出版人物獎) in September 2015, Excellent Leader in the Non-public Economy of Fujian Province* (福建省非公有制經濟優秀建設者) in May 2016 and the Economic Award of Chinese Businessman of 2016 (2016年度華人經濟人物) in December of the same year. Mr. Liu was honoured as Senior Engineer* (享受教授、研究員待遇高級工程師) with his outstanding technical achievements in May 2017. Mr. Liu is also a director of NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)") and NetDragon Websoft Inc. ("NetDragon (BVI)"). Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

Leung Lim Kin, Simon, aged 66, Vice Chairman of the Board, Executive Director, Chairman and Chief Executive Officer of Fujian Province Huayu Education Technology Co. Ltd. ("Fujian Huayu")

Dr. Leung joined the Company in March 2015. He is responsible for the planning, consolidation and operation of the education business of the Company in the People's Republic of China and the development of the online education business overseas.

Dr. Leung had over 30 years of experience in both information technology and telecommunications industries. In 2005, he was appointed as the president of Motorola Asia-Pacific, a company principally engaged in the production of data communication and telecommunication equipment, where he was primarily responsible for the overall strategic planning and implementation in the Asia-Pacific region. Since 2008, Dr. Leung was the chief executive officer of Microsoft Greater China region, a company principally engaged in developing, manufacturing, licensing and sales of software products, where he was primarily responsible for overseeing overall business operations and for developing and implementing a regional strategy.

Prior to joining the Company, Dr. Leung also held management roles at various educational institutions or corporations engaging in education business. From 2009 to 2010, he was the governor of the Upper Canada College, an educational institution, where he was primarily responsible for establishing and directing policy for the college and overseeing its financial affairs. In 2012, Dr. Leung was the chief executive officer of Harrow International Management Services Limited, a company principally engaged in the management of Harrow International Schools, where he was responsible for the development of new Harrow International Schools and education services in Asia.

Dr. Leung received his bachelor of arts degree and an honourary doctorate in laws from the University of Western Ontario, Canada in 1978 and 2005 respectively and a doctorate in business administration from Hong Kong Polytechnic University in 2007.

* *For identification purpose only*

# DIRECTORS AND SENIOR MANAGEMENT

Dr. Leung currently serves as a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business of the University of Western Ontario, an educational institution, where he is primarily responsible for advising the school on its mission strategy in Asia. He is also a governor of Tung Wah College, an educational institution, where he is primarily responsible for determining key governance issues. From 2010 to 2015, Dr. Leung was a member of the International Advisory Committee of the Hong Kong Polytechnic University. From 2015 to 2017, he was appointed as a member of the Steering Committee on Innovation and Technology of HKSAR. Dr. Leung is currently an independent non-executive director of Purapharm Corporation Limited (Stock Code: 1498), a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a director of ARHT MEDIA INC. (Stock Code: ART), a company listed on TSX Venture Exchange (TSXV).

Liu Luyuan, aged 47, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorised representatives of the Company

Mr. Liu is the executive Director, Chief Executive Officer, Compliance Officer and one of the authorised representatives of the Company, and also serves as CEO of TQ Digital and director of NetDragon (BVI). Mr. Liu currently shoulders a number of social services, such as acting as the director general of the West Taiwan Strait Youth Entrepreneurs Foundation, vice chairman of Fujian Youth Development Foundation, vice chairman of the Fujian Youth Federation, executive vice chairman of Fujian Enterprises and Entrepreneurs Confederation, as well as the chairman of Fujian Youth Entrepreneurs Association.

As an outstanding representative of the new social community taking part in the construction of the Fujian West-strait Economic Zone, Mr. Liu has engaged in the operation and management of software enterprises and technology development since his graduation from Chengdu Electronic Technology University in 1997. He has decades of experience in the management and administration of technical institutions. Mr. Liu is in charge of overall management. He has set up the project management department, and introduced the game project management system to ensure a level of standards for game products. As the Company's spokesman, he is also responsible for coordination with governmental departments, media, and other external parties, under which he has built up the Company's public reputation. By taking part in various activities on behalf of the Company, he shared new ideas and new technologies in animation and game industry. Furthermore, he set up the West Taiwan Strait Youth Entrepreneurs Foundation to cultivate talent. Mr. Liu was awarded the "May 4th Youth Medal" and the titles of "Fujian Brilliant Entrepreneur", "Fujian Top Ten Economic People" and "Fujian Business Building Haixi Outstanding Contribution Award".

Mr. Liu graduated from Chengdu Electronic Technology University in 1997, with a degree in electro-mechanical engineering, and later received an adjunct professor certificate from Fujian Normal University. Mr. Liu is a brother of Liu Dejian, and cousin of Zheng Hui.

Chen Hongzhan, aged 48, Executive Director, Senior Vice President and Chief Technology Officer

Mr. Chen is the Senior Vice President, Chief Technology Officer and Executive Director of the Company. He is an experienced online game developer with over 20 years of experience in the management of game development. He is mainly responsible for game development of the Company. The technical team led by Mr. Chen is responsible for the Programme development and the technical support to the production of games of the Company. His technical support and experience have raised the efficiency and quality of the Company's game development department.

# DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen graduated with a Bachelor's degree of Engineering in Mechanical Design and Manufacture (機械設計及製造) from Beihang University (北京航空航天大學) in July 1995. Before joining the Company in 2001, Mr. Chen was a game developer. Mr. Chen established his own online game studio from 1996 to 1999. Mr. Chen worked as the project manager in Chongqing Dazhong Software Company from 1998 to 2000 and the manager of the technical department in Beijing Beijibing Technology Development Company Limited from 2000 to 2001.

Zheng Hui, aged 52, Executive Director, Chairman of NetDragon (Fujian) and NetDragon Communist Party Committee Secretary

Mr. Zheng is an executive Director of the Company and is responsible for the overall management and administration of the Group. Mr. Zheng has accumulated over 20 years of management and administration experience, he is responsible for managing the administrative department of the Group, providing support to the Group's operation, and coordinating, supervising and managing the duties of various departments. Mr. Zheng is one of the founding shareholders of the Company, and he is currently the legal representative and director of Fujian NetDragon Websoft Co, Limited* (福建網龍計算機網絡信息技術有限公司), Fujian TQ Digital Inc. (福建天晴數碼有限公司), Fujian Province Huayu Education Technology Limited* (福建省華漁教育科技有限公司) and Fujian Tianquan Education Technology Limited* (福建天泉教育科技有限公司). At the same time, he is also appointed in several positions, which includes the Deputy to the Fujian Thirteenth Provincial People's Congress* (福建省第十三屆人大代表), the Deputy to the Fuzhou Fifteenth Provincial People's Congress* (福州市第十五屆人大代表), member of China Culture and Entertainment Industry Association* (中國文化娛樂行業協會理事), Chairman of Fujian Cultural Enterprises Association* (福建省文化企業協會會長), Chairman of Trade Development Association of Fuzhou City* (福州市服務貿易發展促進協會會長), Vice Chairman of the Fuzhou Chamber of E-Commerce* (福州市電子商務商會副會長), Vice Chairman of the Fujian Confidentiality Association* (福建省保密協會副會長), Vice Chairman of the Fujian Technology Market Association* (福建省技術市場協會副會長), Vice Chairman of Fuzhou Private Enterprise Association* (福州市民營企業家協會副會長), Vice Chairman of Fuzhou Talent Development Association* (福州市人才發展促進會副會長), Vice Chairman of Fuzhou Software Industry Association, the committee member of the Fujian Provincial Youth Federation* (福建省青年聯合會委員).

Mr. Zheng was awarded as the Brilliant Entrepreneur of Game Industry in China* (中國遊戲行業優秀企業家) from 2016 to 2020 and was also recognised as the First Batch of Cultural Master in Fuzhou* (福州市首批文化名家) in September 2018. He has been appointed as the Secretary of NetDragon Party* (網龍黨委書記) since 2016, has received Non-Government Party Award* (非公黨建金雁獎) in 2018, be honoured as Outstanding Party Performer* (市優秀黨務工作者) in 2019, and was nominated as "Party Building Leaders of Digital Economy" in 2020.

Before founding NetDragon (Fujian) in 1999, Mr. Zheng worked in Beso and Fuzhou 851 from 1992 to 1999. He obtained a graduation certificate from the Continuing Education Institute of Beijing Normal University in 2000. Zheng Hui is the cousin of Liu Dejian and Liu Luyuan.

* *For identification purpose only*

# DIRECTORS AND SENIOR MANAGEMENT

## NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 58, Non-executive Director

Mr. Lin was appointed as a non-executive Director on 15 October 2007. Mr. Lin graduated with a Master's degree in Engineering Management in 1986 from Tsinghua University.

Mr. Lin is currently a general partner of IDG Capital. He has presided over a variety of investment projects in the IT industry since 1995 with remarkable success. Prior to joining IDG Capital, Dongliang was a Senior Research Fellow at the Development Research Center of the State Department of China. He also previously worked for Citibank New York in 1992-1993. Mr. Lin is currently a non-executive director of IDG Energy Investment Limited (Stock Code: 650), a company listed on the Main Board of the Stock Exchange. Mr. Lin is also a director of Sichuan Shuangma Cement Co., Ltd. (四川雙馬水泥股份有限公司) (stock code: 935), a company listed on the Shenzhen Stock Exchange.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 55, Independent non-executive Director

Mr. Chao was appointed as an independent non-executive Director on 15 October 2007. Mr. Chao is also the chairman of the audit committee, a member of the remuneration committee and nomination committee. Mr. Chao is currently the Chairman of the board of directors and Chief Executive Officer of SINA Corporation, a company listed on Nasdaq. Mr. Chao joined SINA Corporation as a Vice President of Finance in 1999 and served as its Co-Chief Operating Officer, President and Chief Financial Officer before his current position as the Chairman of the board of directors and Chief Executive Officer. Mr. Chao is also the Chairman of the board of directors of Weibo Corporation, a leading social media company listed on Nasdaq and a director of Leju Holdings Limited, a leading real estate O2O integrated services platform, which is listed on New York Stock Exchange. Prior to joining SINA, Mr. Chao served as an experienced audit manager in PricewaterhouseCoopers LLP to provide audit and business consulting services for companies in Silicon Valley, California. Mr. Chao was a certified public accountant and the member of AICPA. Mr. Chao graduated with a Master's degree in professional Accounting from the University of Texas at Austin in 1993, a Master's degree in Journalism from the University of Oklahoma in 1991 and a Bachelor's degree in Journalism from the Fudan University in 1988.

Lee Kwan Hung, Eddie, aged 55, Independent non-executive Director

Mr. Lee was appointed as an independent non-executive Director on 15 October 2007. Mr. Lee is also the chairman of our remuneration committee, a member of our audit committee and nomination committee.

He is a practicing solicitor and received his LL.B (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as solicitor in Hong Kong in 1991 and in England and Wales in 1997. He joined Howse Williams Bowers, a law firm in Hong Kong, as a consultant in 2014.

# DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee is currently an independent non-executive director of Embry Holdings Limited, Newton Resources Ltd, Tenfu (Cayman) Holdings Company Limited, China BlueChemical Ltd., Red Star Macalline Group Corporation Ltd., FSE Services Group Limited, Ten Pao Group Holdings Limited and Glory Sun Financial Group Limited, all companies listed on the Main Board of the Stock Exchange. Mr. Lee was also an independent non-executive director of each of Asia Cassava Resources Holdings Limited between January 2009 and May 2018, and Landsea Green Properties Co., Ltd. between July 2013 to June 2020, both companies listed on Main Board of the Stock Exchange.

Liu Sai Keung, Thomas, aged 48, Independent non-executive Director

Mr. Liu was appointed as an independent non-executive Director on 15 October 2007. Mr. Liu is also the chairman of our nomination committee, a member of our audit committee and remuneration committee. He graduated with a MBA degree from the Anderson School at the University of California, Los Angeles and a Bachelor's degree in Business Administration and a Master's degree in Finance from the Chinese University of Hong Kong in 1995 and 1999 respectively. Mr. Liu is currently the executive director and Chief Operation Officer of VCREDIT Holdings Limited (Stock Code: 2003), a company listed on the Main Board of the Stock Exchange. Prior to joining VCREDIT Group in 2009, he served as the managing director of strategic investments of GroupM China from 2007 to 2009 and the vice president of Star Group Limited from 2006 to 2007. He was also served as a business development director of TOM Online Limited and an investment banking associate of the New York office of Lehman Brothers Inc.

## SENIOR MANAGEMENT

Yam Kwok Hei, Benjamin, aged 45, Chief Financial Officer and Senior Vice President

Mr. Yam joined the Group as our Chief Financial Officer in October 2013 and is responsible for financial management, investor relations and strategic business development. Mr. Yam has over 15 years of professional experience in financial services spanning private equity, corporate finance and auditing. Prior to joining the Group, he was a Partner at Entropy Ventures, a cleantech venture capital firm, and before that, he worked for over 7 years at SAIF Partners, a pre-eminent Asian private equity firm managing over USD4 billion, where he last served as Senior Vice President and was actively involved in leading the closing and exit of numerous investment transactions in Greater China, as well as serving as an active board member of several portfolio companies. Mr. Yam started his professional career as an auditor at Arthur Andersen.

Mr. Yam holds a Master of Science degree from Columbia University and a Bachelor of Commerce degree from University of British Columbia. He is a Chartered Accountant, an associate member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charterholder.

# DIRECTORS AND SENIOR MANAGEMENT

Yu Biao, aged 51, Senior Vice President, Chairman of Fujian Huayu (PRC), Chairman of Fuzhou Software Technology Vocational College (福州軟件職業技術學院)

Mr. Yu joined the Group in September 2009, Currently, he serves as Senior Vice President of the Company, Chairman of Fujian Huayu (PRC) and Chairman of Fuzhou Software Technology Vocational College (福州軟件職業技術學院), and is mainly responsible for the planning, consolidation and operation development of the education business of the Company in the PRC and the development of its overseas online education business, with a focus on comprehensive business that covers early childhood education, basic education, higher education, vocational education, corporate training, and non-formal and lifelong education to provide educational authorities, colleges, kindergartens, parents and teachers with professional and convenient education services and teaching or training services through collaborations with educational authorities, colleges and enterprises by building official services platforms and services portals, so as to promote wider application of information technology in education and intelligent education that assisted us in cultivating and providing a large number of talents with practical skills. Mr. Yu also concurrently serves as the vice president of the Association of Promoting Reading in the Public of Fujian Province (福建省全民閱讀促進會副會長), director of VR/AR Vocational Education Steering Committee of Fujian Province (福建省VR/AR行業職業教育指導委員會), member of Council of Development of Warmth Projects of Fujian Province (福建省溫暖工程促進會), member of Digital Art Professional Committee of China Society of Image and Graphics (中國圖像圖形學學會數碼藝術專委會), Director of China Unicom 5G Applications Innovation Alliance (中國聯通5G應用創新聯盟理事).

Before joining the Company, Mr. Yu graduated from the Department of Light Industries of Fuzhou University in 1992, majoring in food engineering. Mr. Yu was a director of Xiamen Digital Engine Network Co., Ltd. (廈門數字引擎網絡有限公司) in 2000. He was the assistant to the dean of Napier College of Fuzhou University (福州大學中英Napier學院) from 2000 to 2007. Mr. Yu was the managing director of Fuzhou Bojie Education Consultation Co., Ltd. (福州博傑教育諮詢有限公司) in February 2004, deputy director of the Chinese and Australian Class Project of Fuzhou No.8 Secondary School and the Chief Representative of the Australian school in China in June 2006 and Managing Director of Fuzhou Bojie Child Education Technology Co., Ltd. (福州博傑兒童教育科技有限公司) from 2008 to 2009. He has over 20 years of experience in education management.

Lin, Chiachuan, Peter, aged 50, Chief Designer and Vice President

After joining the Group in April 2013, Mr. Lin has participated in its businesses, such as the development and design of interface and hardware of the Company's products, research and development of educational equipment, and design of gaming experience. He is currently responsible for the management of User Experience Design Center (UEDC) and Industrial Design Centre (IDC) and certain overseas design teams. Mr. Lin served as the senior manager of the design centre of BenQ Corporation (BenQ) from 2004 to 2006, and the chief designer of BenQ from 2006 to 2010, responsible for the design of brand-name products. He joined Samsung Design China under Samsung Electronics as the creative director/deputy chief in 2012. Mr. Lin graduated from Rochester Institute of Technology in New York, the U.S. and obtained a master's degree of fine arts (MFA). He has over 20 years of experience in design and development and management of brand-name products.

# DIRECTORS AND SENIOR MANAGEMENT

Wang Song, aged 39, Chief Product Officer and Senior Vice President

Mr. Wang joined the Group in 2002 and is responsible for the game projects, such as Eudemons Online《魔域》and Conquer Online《征服》. He has also participated in the planning of a number of major projects, including Monster & Me《幻靈游俠》, Zero Online《機戰》, OL Tou Ming Zhuang Online《投名狀OL》and OL Heroes of Might & Magic Online《英雄無敵OL》. Since 2004, Mr. Wang has been planning the Eudemons Online《魔域》project, and in the past ten years, he has led the Eudemons Online《魔域》related projects to win numerous awards in China, successfully enter the overseas market, and achieve tens of billions of income for the Company. Mr. Wang has also been responsible for the planning and research and development of educational products of the Group since 2013. Since 2017, with the change of the Group's overall education business structure, Mr. Wang has been fully responsible for the product business of the Group (including games and education). He is currently the Chief Products Officer and Senior Vice President of the Company, mainly responsible for the Company's core product design, major strategic recommendations and major decision making.

Lin Wei, aged 42, Senior Vice President and President of Fujian Huayu (PRC)

Mr. Lin joined the Group in 2008 and is currently the senior vice president of the Group and the president of Fujian Huayu (PRC), mainly responsible for organisation and management of sales team, construction and expansion of sales channel and research and development of hardware products for the educational business of the Group in the PRC. Before joining the Group, Mr. Lin worked for DELL (China) and has over 15 years of experience in IT, mobile Internet and education industries.

Mr. Lin also serves as the instructor of Yanwu Maker at the Software College of Xiamen University and has dedicated to the integration of advanced technology (such as AI/VR/AR/big data) with education, so as to move the industry forward. In view of this, Mr. Lin actively encourages the implementation of virtual reality technology in higher vocational education. Since the inception of the virtual reality competition in the National Vocational Student Skills Competition（全國高等職業技能大賽虛擬現實賽項）in 2017, Netdragon has been the organiser of this event for two consecutive years. Mr. Lin has facilitated the cooperation of Netdragon with National Center for Schooling Development Programme to set up Guoyu Huayu VR World Laboratory project, thereby providing VR technology laboratory and talent cultivation programme for research undergraduate education, application-type undergraduate education and vocational college. He has formed a VR educational alliance with China Association for Educational Technology and The Open University of China to provide VR curriculum design and laboratory construction programme for the Open University. Furthermore, Mr. Lin also serves on the editorial board of the "Artificial Intelligence"（人工智能）series, teaching materials for basic education published by the Shanghai Educational Publishing House. He received the 2020 Echoing China Tencent Education Annual Ceremony Award（二零二零回響中國騰訊教育年度盛典獎）and was recognised as the 2020 Education Industry Leader（二零二零年度教育行業領軍人物）.

# DIRECTORS AND SENIOR MANAGEMENT

Xiong Li, 45 years old, Chief Executive Officer of NetDragon (Fujian), Associate Dean of Chinese Academy of Education Big Data, Deputy Director of National Engineering Laboratory for Cyberlearning and Intelligent Technology

Dr. Xiong joined the Group as Chief Executive Officer of NetDragon (Fujian) in July 2014, responsible for the Company's general operation and management. His responsibilities include human resources, NetDragon University, public relations, art development and corporate on-the-job training projects. In addition, Dr. Xiong was appointed as deputy director of National Engineering Laboratory for Internet Education Intelligent Technology and Application in November 2017. He was also appointed as the Associate Dean of Chinese Academy of Education Big Data in January 2019.

Dr. Xiong has over 15 years of management experience in both information technology and internet industries. Before joining the Group, Dr. Xiong served as director of human resources at Shanda Group, and then as executive director of human resources and director of the office of the president. During this time, he oversaw and operated Shanda's unique game-oriented management system and has applied for an intellectual property patent. Previously, Dr. Xiong was also a project manager of human resources at China Mobile where he led the building of competence model and won the 2nd prize of national management innovation issued by China's Ministry of Industry and Information Technology. Dr. Xiong received a bachelor's degree in automation from University of Science and Technology of China in 1999 and a doctorate degree in management science and engineering in 2004 when graduated early. Dr. Xiong has published over 20 academic papers in domestic and foreign core journals.

Chen Hong, aged 45, Chief Technology Officer ("CTO") of Fujian Huayu and Senior Vice President

Mr. Chen joined the Group as CTO of Fujian Huayu in April 2018, fully responsible for technical development strategy planning, research and development, difficult challenges and innovation, capacity improvement and other technical management issues in the education business field. Prior to joining the Group, Mr. Chen served as General Manager of VMware Beijing R&D Center, R&D Director of CPD China and Japan, and CTO of SVM (Joint Venture of Sugon and VMware). Mr. Chen has rich management experiences in large-scale teams of Chinese and global companies, Sino-foreign joint ventures and startups. He also has excellent management skills in Internet education, education artificial intelligence, cloud computing, operating system, network, storage, system management automation and large enterprise software development, testing, product management, customer technical support, and R&D center management. Mr. Chen obtained a master's degree in engineering from Beijing Institute of Technology in 1999 and a master's degree in business administration from Tsinghua University in 2008.

Garwin Chan, aged 39, Chief Strategy Officer of Edmodo

Mr. Chan joined the Group in March 2019 as the Chief Strategy Officer of Edmodo. Prior to Edmodo, he was the chief financial officer at The Third Stone Holdings Limited, an e-commerce and blockchain startup. Prior to that, Mr. Chan was a private equity and credit investment executive, having spent 8 years with Bain Capital in the US and in Asia, before joining a Chinese conglomerate to lead their private equity investments. Mr. Chan graduated from Harvard College with a BA in Economics, and from Harvard Business School with a Master in business administration.

# DIRECTORS AND SENIOR MANAGEMENT

Lin Chen, aged 39, Senior Vice President

Mr. Lin joined the Group in 2009, currently serves as the senior vice president of the Group. He is responsible for the management of the design center, the design supporting center and QA department. Mr. Lin is an experienced expert in the area of software quality management. After joining the Group, Mr. Lin has led the QA technology team to continuously improve software quality management system and ensure product safety and reliability of the Company, and has in turn achieved remarkable result in ensuring software safety. Since 2013, Mr. Li has concurrently served as the head of the design center and was responsible for management of the game design, software design, UED and industry design teams. He proactively promotes improvement of design ability, cultivation of design talents, consideration and promotion of design method and helping the Group to transform into an international design enterprise. Since 2018, Mr. Lin has served as the senior vice president of the Group, responsible for the management of the design center, the design supporting center and the QA department. Concurrently, he has been deeply involved in strategic work of the Group, such as decision-making in research and development of the game and education business.

Before joining the Group, Mr. Lin worked in the Global Information Technology Services department, responsible for testing and delivery of overseas IT projects. He is experienced in software quality management and overseas business management.

Vin Riera, aged 50, Chief Executive Officer of Promethean

Vin Riera was appointed as Chief Executive Officer at Promethean in January 2017. Vin is responsible for Promethean's "mission to develop the transformative technologies, educational content and dynamic experiences that motivate students to learn". He is committed to furthering the legacy of success and continuing to place Promethean customers at the center of everything it does. Prior to working for Promethean, Vin has served as the Chief Executive Officer at Collegis Education, Chief Executive Officer at Edmentum and held executive leadership roles at Gateway and Orange Business Services. Vin holds a Bachelor of Business Administration from Western New England University and has over 25 years of successful experience across the hardware, software and business services fields.

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Hak Kin, Wood, aged 43, Financial Controller, Qualified Accountant, Head of Compliance and Corporate Affairs and Company Secretary

Mr. Lau joined the Group as Financial Controller and Head of Compliance and Corporate Affairs in February 2014 and was appointed as the Company Secretary of the Group in September 2014. Mr. Lau holds a bachelor's degree in business administration, majoring in accountancy, from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a CFA charterholder. He has over 10 years of experience in financial management, risk management, accounting, taxation and auditing and previously worked for PricewaterhouseCoopers and acting chief financial officer of Asian Citrus Holdings Limited before joining the Group.

# REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 and is an investment holding company. The shares of the Company have been listed on the Main Board of the Stock Exchange since 24 June 2008.

The Group is principally engaged in online and mobile games development, including games design, programming and graphics and online and mobile games operation, education business, mobile solution, products and marketing business and property project business.

Details of the principal activities of the Company's principal subsidiaries are set out in note 56 of Notes to the Consolidated Financial Statements.

## BUSINESS REVIEW

The fair review of the Group's business for the year ended 31 December 2020 is set out in "Management Discussion and Analysis" section on pages 11 to 17.

Details of analysis of the financial key performance are set out in "Management Discussion and Analysis" section on pages 9 to 10.

### PRINCIPAL RISKS & UNCERTAINTIES

Competition in the online and mobile game industry in the global market, including the PRC, is becoming increasingly intense. There are already several online and mobile game companies, such as Zynga.com, Electronic Arts, Perfect World, IGG Inc, NetEase.com, Tencent Holdings Limited and Changyou.com, which have successfully listed their shares on NASDAQ, or the Hong Kong Stock Exchange. These companies all have strong financial resources. Moreover, there are many venture-backed private companies focusing on online game development further intensifying the competition, particularly in the global market. Recently, many of the competitors have not only been aggressively recruiting talent to bolster their game development capabilities, but also increasing their spending on game marketing. Increased competition in the online and mobile game market may make it difficult for the Group to retain our existing employees, attract new employees, acquire new players and sustain our growth rate.

The Company is affected by the emergence of new technologies and games. New technologies in online game development or operations could render the games that the Group designs or plans to develop obsolete or unattractive to players, thereby limiting our ability to recover the development costs, which could potentially adversely affect our future profitability and growth prospects.

# REPORT OF THE DIRECTORS

## BUSINESS REVIEW (Cont'd)

### PRINCIPAL RISKS & UNCERTAINTIES (Cont'd)

The Group relies on the spending of our game players for our revenue, which may in turn depend on the players' level of disposable income, job security, perceived future earnings capabilities and willingness to spend. The global economy experienced a slowdown since the financial crisis, and the slowdown was further exacerbated by European debt crisis. It is uncertain how long and to what extent global economic difficulties will continue and how much adverse impact it will have on the economies in markets where we operate our games, such as North America, Europe, and Asia. If our game players reduce their spending on playing games due to such uncertain economic conditions, our business, financial condition and results of operations may be adversely affected.

Details of the risks relating to the contractual arrangements are set out on pages 52 to 56.

### KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The future success of the Group is heavily dependent upon the continued service of our key executives and other key employees. In particular, the Group relies on the expertise and experience of Liu Dejian, an executive Director, in our business operations. Mr. Liu is mainly responsible for overall business strategic development and is the chief game designer of our game development team. Mr. Liu leads the game development team on the design of our online game products. He formulates our development policy and contributes to our growth as a competitive online game operator and developer.

The operating environment of the online game industry is changing rapidly. In order to maintain profitability and financial and operational success, the Group must continuously develop new online games that are attractive to players, make improvements to the existing games that appeal to players and enhance the technical and artistic features of all of our games. The success of our games largely depends on our ability to anticipate and respond effectively to the ever changing customer preferences and demand.

The Group's suppliers include primarily server and bandwidth leasing companies and game operation service providers and it also relies on third party service providers in various aspects. The distribution and payment channels comprise (i) direct sales supported by online payment service providers and distribution partners, (ii) pre-paid card sales supported by distributors throughout the PRC, and (iii) cooperation channels supported by our cooperation partners. In addition, the Group relies on third parties in providing Internet support to our online games and also relies on an independent third party for the license from the GAPP, which is fundamental to our business, to publish our games.

The performance and the results of operation of the Group as set out in this Annual Report are historical in nature and past performance is not a guarantee of future performance. This Annual Report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual result may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialise or turns out to be incorrect.

## BUSINESS REVIEW (Cont'd)

### COMPLIANCE WITH LAWS AND REGULATIONS

In relation to human resources, the Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, and ordinances relating to disability, sex, family status and race discrimination, as well as the Employment Ordinance, the Minimum Wage Ordinance and ordinances relating to occupational safety of employees of the Group, so as to safeguard the interests and well-being of its employees.

The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and the guidelines issued by the Office of the Privacy Commissioner for Personal Data, with a view to protecting the privacy of its employees and customers.

On the corporate level, the Group complies with the requirements under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Companies Ordinance"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

### Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees' rights and benefits. We establish and implement policies that promote a friendly and respectful workplace.

The Group believes that employees are valuable assets of an enterprise and regards human resources as its corporate wealth. We provide on-the-job training and development opportunities to enhance our employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced.

### Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provides health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staff are entitled to medical insurance benefits as well as other health awareness programmes.

# REPORT OF THE DIRECTORS

## RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2020 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 111.

The interim dividend of HKD0.25 per share amounting to approximately RMB128,780,000 for the six months ended 30 June 2020 was paid on 19 October 2020.

The Directors now recommend the payment of a final dividend of HKD0.25 per share. The final dividend is expected to be payable on or before Friday, 9 July 2021 to shareholders whose names appear on the register of members of the Company on Wednesday, 9 June 2021, amounting to approximately RMB118,044,000.

## PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2020.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2020 are set out in note 14 of Notes to the Consolidated Financial Statements.

## SHARE CAPITAL

Details of movements of the Company's issued shares for the year ended 31 December 2020 are set out in note 42 of Notes to the Consolidated Financial Statements.

## RESERVES

Movements in the reserves of the Group for the year ended 31 December 2020 are set out in the Consolidated Statement of Changes in Equity.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2020 and 2019, the Company had reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB118,044,000 (2019: approximately RMB118,824,000), share premium of approximately RMB2,219,742,000 (2019: approximately RMB1,565,863,000) and retained earnings of approximately RMB288,248,000 (2019: approximately RMB44,291,000) of the Company.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers and the Group's largest customer accounted for approximately 15.8% and approximately 5.8%, respectively, of the Group's total revenue for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 48.8% and approximately 22.4%, respectively, of the Group's total purchase for the year.

So far as is known to the Directors, none of the Directors, their close associates, or shareholders (which to the best knowledge of the Directors owned more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest suppliers and customers during the year.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were as follows:

Executive Directors

Mr. Liu Dejian (Chairman)
Dr. Leung Lim Kin Simon (Vice Chairman)
Mr. Liu Luyuan (Chief Executive Officer)
Mr. Zheng Hui
Mr. Chen Hongzhan

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Chao Guowei, Charles *(Notes 2, 3 and 5)*
Mr. Lee Kwan Hung, Eddie *(Notes 1, 4, 5 and 8)*
Mr. Liu Sai Keung, Thomas *(Notes 1, 3, 6 and 7)*

# REPORT OF THE DIRECTORS

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

Notes:

1. Member of Audit Committee

2. Chairman of Audit Committee

3. Member of Remuneration Committee

4. Chairman of Remuneration Committee

5. Member of Nomination Committee

6. Chairman of Nomination Committee

7. Member of Share Award Scheme Committee

8. Chairman of Share Award Scheme Committee

The Directors' profile is set out on pages 23 to 28.

Each of the executive Directors has entered into a service contract with the Company and each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 24 June 2008 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the current term unless and until terminated in accordance with its terms or by either party thereto giving to the other not less than three months' prior written notice. Each of the executive Directors will receive a salary which is subject to annual review at the discretion of the Board.

The determination of the salary payment to the Directors will be based on salaries paid by comparable companies, time commitment, the duties and responsibilities of the Directors in the Company, the Company's performance and its remuneration policy.

Each of the executive Directors may also be entitled to a bonus payment in such amount as shall be determined by the Board in its absolute discretion provided that the aggregate sum of such bonus payments in any financial year shall, unless the Board shall determine otherwise, not exceeding 1% of the audited consolidated net profit of the Group after taxation but before extraordinary items in the relevant financial year.

In accordance with article 87(1) of the articles of association of the Company, Mr. Liu Luyuan, Mr. Zheng Hui and Mr. Lee Kwan Hung, Eddie, will retire by rotation at the forthcoming annual general meeting (the "AGM").

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

In accordance with article 86(3) of the articles of association of the Company, any Director appointed from time to time by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Mr. Liu Luyuan, Mr. Zheng Hui and Mr. Lee Kwan Hung, Eddie being eligible, will offer themselves for re-election at the AGM of the Company. None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmations of independence from Mr. Chao Guowei, Charles, Mr. Lee Kwan Hung, Eddie and Mr. Liu Sai Keung, Thomas and considers them to be independent.

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

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

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

# REPORT OF THE DIRECTORS

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

| Name of Director | Name of Company | Capacity and nature of interests | Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Liu Luyuan *(Note 2)* | The Company | Beneficial owner and beneficiary of certain trust | 250,822,457 (L) | 44.71% |
| Liu Luyuan *(Note 3)* | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |
| Zheng Hui *(Note 2)* | The Company | Beneficial owner and through controlled corporations | 250,822,457 (L) | 44.71% |
| Zheng Hui *(Note 3)* | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |
| Chen Hongzhan *(Note 5)* | The Company | Beneficial owner and beneficiary of certain trust | 11,197,019 (L) | 2.00% |
| Chao Guowei, Charles *(Note 6)* | The Company | Beneficial owner | 438,500 (L) | 0.08% |
| Lee Kwan Hung, Eddie *(Note 7)* | The Company | Beneficial owner | 632,519 (L) | 0.11% |
| Liu Sai Keung, Thomas *(Note 8)* | The Company | Beneficial owner | 818,019 (L) | 0.15% |

*Notes:*

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.

2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 34.06% of the issued voting shares of the Company. Liu Dejian is also interested in 0.37% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

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

*Notes: (Cont'd)*

Liu Luyuan is interested in 4.14% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 21,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

Zheng Hui is interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.39% of the issued voting shares of the Company. Zheng Hui is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 2.48% of the issued voting shares of the Company. Zheng Hui is also interested in 0.27% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 44.71% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 3.23%, 0.07% and 96.66%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).

4. Leung Lim Kin, Simon is interested in 0.95% of the issued voting shares of the Company which is represented by beneficial interest of 1,353,580 shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.

5. Chen Hongzhan is interested in 2.00% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.

6. Chao Guowei, Charles is interested in 0.08% of the issued voting shares of the Company which is the underlying shares of interest of 438,500 shares options granted by the Company.

7. Lee Kwan Hung, Eddie is interested in 0.11% of the issued voting shares of the Company which is represented by personal interest of 114,519 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.

8. Liu Sai Keung, Thomas is interested in 0.15% of the issued voting shares of the Company which is represented by personal interest of 300,019 shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2020, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 52 of the Notes to the Consolidated Financial Statements, no transaction, arrangement or contract of significance in relation to the Company's business, to which the Company was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

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

So far as is known to the Directors, as at 31 December 2020, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the issued voting shares of any other member of the Group:

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

*Notes:*

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

## 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 1.94%, 7.51%, 1.53% and 0.70% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

    a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.

    b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.

    c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investors Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

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

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

### ND STRUCTURE CONTRACTS

*ND Cooperation Framework Agreement*

With a view to offer further protection to the interests of the Company and the shareholders as a whole by means of contractual arrangements, Fujian TQ Digital Inc. (福建天晴數碼有限公司) ("TQ Digital") and Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") and its equity holders entered into the structure contracts (together with the contracts entered into between NetDragon (Fujian) and Fujian TQ Online Interactive Inc. ("TQ Online") as set out below, the "ND Structure Contracts"), which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007. The registered owners of NetDragon (Fujian) are: (i) Liu Dejian, an executive Director (as to approximately 3.23%), (ii) Liu Luyuan, an executive Director (as to approximately 0.07%), (iii) Zheng Hui, an executive Director (as to approximately 96.66%), (iv) Chen Minlin, an employee of Fuzhou 851 (as to approximately 0.02%), and (v) Lin Yun, an employee of the Group (as to approximately 0.02%).

In view of the Enterprise Income Tax law adopted by the National People's Congress of the PRC on 16 March 2007, a wholly foreign owned enterprise, TQ Online, has been set up to gradually substitute TQ Digital in our operation. TQ Online has entered into the ND Structure Contracts with NetDragon (Fujian) on 16 May 2008. As TQ Digital is and will still be the party operating the existing versions of the Group's online games, all ND Structure Contracts entered into between TQ Digital and NetDragon (Fujian) will be retained.

Under the ND Structure Contracts, NetDragon (Fujian) is responsible to collect the revenue generated from the operation of the games. Through the ND Structure Contracts, we are able to recognise and receive the economic benefits of the business and operations of NetDragon (Fujian). The ND Structure Contracts enable TQ Digital and TQ Online to control over and to acquire the equity interests in and/or assets of NetDragon (Fujian) when permitted by the relevant PRC laws and regulations.

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into a cooperation framework agreement (the "ND Cooperation Framework Agreement") pursuant to which TQ Digital and NetDragon (Fujian) agreed to cooperate in the provision of services relating to the online game development for and the operation of the online game business of NetDragon (Fujian). The ND Cooperation Framework Agreement and the terms of reference of the management committee (the "ND Management Committee") laid down the principles that the ND Management Committee shall have right to determine the amount of license and service fees payable by NetDragon (Fujian) with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) NetDragon (Fujian) shall pay the maximum amount of fees to TQ Digital without incurring any loss for each financial year; and (ii) the net asset value of NetDragon (Fujian) shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000. Further details of ND Management Committee are set out in the section of "Corporate Governance Report" under the paragraphs of "ND Management Committee". This principle will ensure that all of the net profit after tax of NetDragon (Fujian) in each financial year shall be paid to TQ Digital as service or license fees, and will give flexibility to the ND Management Committee to implement the ND Structure Contracts and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

On 16 May 2008, TQ Online and NetDragon (Fujian) entered into another cooperation framework agreement with the same terms as the ND Cooperation Framework Agreement, save as to the date, duration and the substitution of TQ Digital by TQ Online. The term of such cooperation framework agreement is 10 years commencing from 16 May 2008 and ending on 15 May 2018, and automatically renewable for successive 10 year terms provided that TQ Online does not issue any notice of termination one month before the termination date.

## CONNECTED TRANSACTIONS (Cont'd)

### ND STRUCTURE CONTRACTS (Cont'd)

*ND Cooperation Framework Agreement (Cont'd)*

As a result of the ND Structure Contracts, TQ Digital and TQ Online are able to control NetDragon (Fujian), and accordingly, it is regarded as our subsidiary and its results are to be consolidated into our consolidated financial statements. Since NetDragon (Fujian) was under the common control of the same group of persons before and after our formation, the results and financial positions of NetDragon (Fujian) is combined into our consolidated financial statements using merger accounting as if NetDragon (Fujian) was part of us since its respective date of establishment or since the date when it first came under the common control.

In accordance with the terms of the ND Cooperation Framework Agreements, TQ Digital and TQ Online (where relevant) entered into (1) cooperation and license agreements in respect of online games; (2) online games software development service agreements; and (3) technical support service agreements with NetDragon (Fujian), for the purpose of license, development of online games and provision of technical services to NetDragon (Fujian). Details of the agreements are set out below:

| Date of agreement signed | Name of agreement | Summary of agreement | Terms of agreement |
|---|---|---|---|
| 15-10-2007 and 20-11-2007 | Cooperation and license agreements in respect of online games | TQ Digital will license online game softwares to NetDragon (Fujian) for use in the PRC | • 10 years commencing from 01-01-2007 to 31-12-2016*<br>• Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues |
| 15-10-2007 | Online game software development service agreement | TQ Digital will provide online software development service to NetDragon (Fujian) | • 10 years commencing from 01-01-2007 to 31-12-2016*<br>• Consideration of a service fee |
| 15-10-2007 | Technical support service agreement | TQ Digital will provide technical support services to NetDragon (Fujian) | • 10 years commencing from 01-01-2007 to 31-12-2016*<br>• Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues |
| 16-05-2008 | Online game software development service agreement | TQ Online will provide online software development service to NetDragon (Fujian) | • 10 years commencing from 16-05-2008 to 15-05-2018▲<br>• Consideration of a service fee |

* automatically renewable for successive 10 year terms provided that TQ Digital does not issue any notice of termination one month before the termination date

▲ automatically renewable for successive 10 year terms provided that TQ Online does not issue any notice of termination one month before the termination date

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

*ND Cooperation Framework Agreement (Cont'd)*

| Date of agreement signed | Name of agreement | Summary of agreement | Terms of agreement |
|---|---|---|---|
| 16-05-2008 | Technical support service agreement | TQ Online will provide technical support services to NetDragon (Fujian) | • 10 years commencing from 16-05-2008 to 15-05-2018▲<br>• Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues |
| 01-03-2009 | Cooperation and license agreements in respect of online games | TQ Online will license online game softwares to NetDragon (Fujian) for use in the PRC | • 10 years commencing from 01-03-2009 to 28-02-2019▲<br>• Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues |

*ND Equity Interest Pledge Agreement*

On 28 September 2007, TQ Digital, NetDragon (Fujian) and all equity holders of NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to TQ Digital a continuing first priority security interests over their respective equity interests in the registered capital of NetDragon (Fujian), representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by NetDragon (Fujian)'s equity holders under the ND Structure Contracts.

▲ automatically renewable for successive 10 year terms provided that TQ Online does not issue any notice of termination one month before the termination date

## CONNECTED TRANSACTIONS (Cont'd)

### ND STRUCTURE CONTRACTS (Cont'd)

*ND Agreement for the Exclusive Right to Acquire Equity Interest and Assets*

On 15 October 2007, TQ Digital, NetDragon (Fujian) and all of the equity holders of NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets, pursuant to which NetDragon (Fujian) and all its equity holders granted to TQ Digital or its designee (a) a right to acquire part or all of the equity interest in the registered capital of NetDragon (Fujian); and (b) a right to acquire part or all of the assets of NetDragon (Fujian) from the equity holders of NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by TQ Digital to the equity holders of NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law. If the minimum amount of consideration stipulated under the relevant PRC laws and regulations is higher than the nominal amount at the time of exercise of the acquisition right, Liu Dejian, Liu Luyuan and Zheng Hui had jointly, severally and irrevocably undertaken to reimburse the Company or its subsidiaries of any amount in excess of the nominal amount.

*ND Equity Holders' Voting Rights Proxy Agreement*

On 15 October 2007, all equity holders of NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "ND Proxy Agreement") with TQ Digital and NetDragon (Fujian), pursuant to which all equity holders of NetDragon (Fujian) have irrevocably authorised TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting rights in NetDragon (Fujian). The term of the ND Proxy Agreement shall continue indefinitely for so long as NetDragon (Fujian) subsists in order to secure our control over NetDragon (Fujian).

*ND Other Contracts*

The Directors expect that there may be other contracts, such as service agreement and/or cooperation and license agreement, to be entered from time to time (the "ND Other Contract(s)") between the Company and its subsidiaries on the one hand and NetDragon (Fujian) on the other. Save as disclosed in this report, no ND Other Contract subsisted at the end of the year or at any time during the year under review.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS

*WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW*

As Liu Dejian, Liu Luyuan and Zheng Hui, being the executive Directors and the controlling shareholders of the Company, are interested in an aggregate of 99.96% in NetDragon (Fujian), NetDragon (Fujian) is technically an associate of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore a connected person of the Company. Transactions between the Company, NetDragon Websoft Inc. ("NetDragon (BVI)"), TQ Digital, TQ Online or NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts, would technically constitute connected transactions under the Listing Rules. The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the ND Structure Contracts and the ND Other Contracts. Details of the waiver, together with its conditions, are set forth in the listing document of the Company dated 27 May 2008 (the "Listing Document").

On 10 February 2015, Fujian Tianquan Education Technology Limited ("Fujian Tianquan"), Fujian Province Huayu Education Technology Limited ("Fujian Huayu") and NetDragon (Fujian) have entered into the Best Assistant Control Documents (as defined below). Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned enterprise, operating company or foreign-invested telecommunication enterprise ("FITE") that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

The Best Assistant Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Best Assistant Management Committee (as defined below) with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000.

The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan and will give flexibility to the Best Assistant Management Committee to implement the Best Assistant Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

## CONNECTED TRANSACTIONS (Cont'd)

### BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

*WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW (Cont'd)*

As the Best Assistant Control Documents are cloned from the ND Structure Contracts, transactions under the Best Assistant Control Documents are exempt from Shareholders' approval.

The amount of revenue and assets subject to the contractual arrangements under the ND Structure Contracts and the Best Assistant Control Documents accounted for approximately 49.4% and 17.2% of the Group's total revenue and assets, respectively, for the year ended 31 December 2020.

The Company's independent non-executive Directors have reviewed the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2020 have been entered into in accordance with the relevant provisions of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents, have been operated so as to allow (a) the economic interest generated by NetDragon (Fujian) flows to TQ Digital and TQ Online; and (b) the economic interest generated by Fujian Huayu flows to Fujian Tianquan; and the new structure contracts (including the Best Assistant Control Documents) entered into, renewed and/or cloned during the year ended 31 December 2020 were entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

Each of NetDragon (Fujian) and Fujian Huayu has provided to the Company an undertaking that they will allow the Company and its auditor to have full access to relevant records of NetDragon (Fujian) and Fujian Huayu, respectively.

On 10 February 2015, Fujian Tianquan Education Technology Limited ("Fujian Tianquan"), Fujian Province Huayu Education Technology Limited ("Fujian Huayu") and NetDragon (Fujian) entered into the Best Assistant Cooperation Framework Agreement (as defined below), a technical support service agreement, an equity interest pledge agreement, an exclusive acquisition rights agreement and a proxy agreement (collectively, the "Best Assistant Control Documents"). The registered owner of Fujian Huayu is NetDragon (Fujian).

Save for the entering into of the Best Assistant Control Documents, details of which are disclosed below, there were no other new arrangements pursuant to or under the contractual arrangements entered into, renewed or reproduced between the Group and the PRC operational entity during the year ended 31 December 2020, and there was no material change in the contractual arrangements and/or the circumstances during the year ended 31 December 2020.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS (Cont'd)

### BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

*Best Assistant Cooperation Framework Agreement*

On 10 February 2015, Fujian Tianquan and Fujian Huayu have entered into a cooperation framework agreement (the "Best Assistant Cooperation Framework Agreement") pursuant to which Fujian Tianquan and Fujian Huayu agreed to cooperate in the provision of value-added telecommunications services relating to the online educational softwares business development for and the operation of the online educational softwares business of Fujian Huayu. The Best Assistant Cooperation Framework Agreement and the terms of reference of the management committee (the "Best Assistant Management Committee") laid down the principles that the Best Assistant Management Committee shall have right to determine the amount of license and service fees payable by Fujian Huayu with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2015, being approximately RMB200,000,000. This principle will ensure that all economic benefits generated from the operation of Fujian Huayu in each financial year will be enjoyed by Fujian Tianquan as service or license fees, and will give flexibility to the Best Assistant Management Committee to implement the Best Assistant Control Documents and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

As a result of the Best Assistant Control Documents, Fujian Tianquan is able to control Fujian Huayu, accordingly, it is regarded as subsidiary of Best Assistant (Cayman) and its results are to be consolidated into financial statements of Best Assistant (Cayman). Since Fujian Huayu was under the common control of the same group of persons before and after our formation, the results and financial positions of Fujian Huayu is combined into financial statements using merger accounting as if Fujian Huayu was part of us since its date of establishment or since the date when it first came under the common control.

## CONNECTED TRANSACTIONS (Cont'd)

### BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

*Best Assistant Cooperation Framework Agreement (Cont'd)*

In accordance with the terms of the Best Assistant Cooperation Framework Agreement, Fujian Tianquan entered into the technical support service agreement with Fujian Huayu, for the purpose of license, development of educational softwares business and provision of technical services to Fujian Huayu. Details of the agreement are set out below:

| Date of agreement signed | Name of agreement | Summary of agreement | Terms of agreement |
|---|---|---|---|
| 10-02-2015 | Technical support service agreement | Fujian Tianquan will provide technical support services to Fujian Huayu | • For an indefinite term commencing from 10-02-2015, unless Fujian Huayu have transferred all its assets or equity interests to Fujian Tianquan or a party designated by Fujian Tianquan<br>• Consideration of a per annum services fee determined as a percentage of Fujian Huayu annual gross revenues |

*Best Assistant Equity Interest Pledge Agreement*

On 10 February 2015, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which NetDragon (Fujian) granted to Fujian Tianquan a continuing first priority security interests over its equity interests in the registered capital of Fujian Huayu, representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Huayu under the Best Assistant Control Documents.

*Best Assistant Exclusive Acquisition Rights Agreement*

On 10 February 2015, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into an exclusive acquisition rights agreement, pursuant to which Fujian Huayu and NetDragon (Fujian) granted to Fujian Tianquan or its designee (a) a right to acquire part or all of the equity interest in the registered capital of Fujian Huayu; and (b) a right to acquire part or all of the assets of Fujian Huayu from NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by Fujian Tianquan to NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law.

## CONNECTED TRANSACTIONS (Cont'd)

### BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

*Best Assistant Proxy Agreement*

On 10 February 2015, NetDragon (Fujian) entered into a proxy agreement with Fujian Tianquan and Fujian Huayu, pursuant to which NetDragon (Fujian) have irrevocably authorised Fujian Tianquan or a nominee designated by Fujian Tianquan to exercise all their voting rights in Fujian Huayu. The term of the Best Assistant Proxy Agreement shall continue indefinitely for so long as Fujian Huayu subsists in order to secure our control over Fujian Huayu.

### REASONS FOR ENTERING INTO THE CONTRACTUAL ARRANGEMENTS

As NetDragon (BVI) and Best Assistant are companies incorporated in the British Virgin Islands and Cayman Islands respectively, their PRC subsidiaries, TQ Digital, TQ Online and Fujian Tianquan are considered as wholly foreign-invested enterprises. The PRC government restricts foreign investment in value-added telecommunications businesses. The arrangements under the contractual arrangements are designed specifically to confer upon TQ Digital and TQ Online (in the case of the ND Structure Contracts) and Fujian Tianquan (in the case of the Best Assistant Control Documents) the right to enjoy all the economic benefit of NetDragon (Fujian) and Fujian Huayu respectively, and to prevent leakages of assets and values of NetDragon (Fujian) and Fujian Huayu to their ultimate shareholders.

### RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

*There is no assurance that the contractual arrangements are in compliance with existing or future PRC laws and regulations.*

The Company has not encountered any interference from any governing bodies in operating its business through NetDragon (Fujian) and/or Fujian Huayu under the contractual arrangements.

However, it cannot be assured that the PRC government or judicial authorities would agree that the contractual arrangements comply with PRC licensing, registration, other regulatory requirements or policies that may be adopted in the future. If the PRC government or judicial authorities determines that the contractual arrangements do not comply with applicable laws and regulations, it could have broad discretion in dealing with such incompliance, including:

1. requiring the nullification of the contractual arrangements;

2. levying fines and/or confiscating the proceeds generated from the operations under the contractual arrangements;

## CONNECTED TRANSACTIONS (Cont'd)

### RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

*There is no assurance that the contractual arrangements are in compliance with existing or future PRC laws and regulations. (Cont'd)*

3. revocation of the business licenses or operating licenses of NetDragon (Fujian), Fujian Huayu, TQ Digital, TQ Online and/or Fujian Tianquan;

4. discontinuing or placing restrictions or onerous conditions on the business operations of NetDragon (Fujian), Fujian Huayu, TQ Digital, TQ Online and/or Fujian Tianquan;

5. imposing conditions or requirements which the Group may not be able to comply with or satisfy;

6. requiring the Group to undergo a costly and disruptive restructuring; and

7. taking other regulatory or enforcement actions that could be harmful to or even shut down online game business and/or online education business of the Group.

The imposition of any of the above-mentioned consequences could result in a material and adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these consequences causes TQ Digital, TQ Online and/or Fujian Tianquan to lose the rights to direct the activities of NetDragon (Fujian) and/or Fujian Huayu or their respective rights to receive their economic benefits, the Group would no longer be able to consolidate the financial results of NetDragon (Fujian) and/or Fujian Huayu and thus affect its financial results.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

*Each of TQ Digital, TQ Online and Fujian Tianquan relies on the contractual arrangements to control and obtain the economic benefit from NetDragon (Fujian) and Fujian Huayu, the operating entities in the PRC, which may not be as effective in providing operational control as direct ownership.*

If NetDragon (Fujian), Fujian Huayu and/or their ultimate shareholders breach their obligations under the contractual arrangements or if TQ Digital, TQ Online and/or Fujian Tianquan loses effective control over NetDragon (Fujian) and/or Fujian Huayu for any reason, TQ Digital, TQ Online and/or Fujian Tianquan would need to bring a claim against them under the terms of the contractual arrangements. The contractual arrangements are governed by the PRC law and provide that any dispute arising from these arrangements will be submitted to the Fuzhou International Economic and Trade Arbitration Commission, for arbitration, the ruling of which will be final and binding. Furthermore, personal liabilities of ultimate shareholders of NetDragon (Fujian) and Fujian Huayu may also subject the equity interest they hold in NetDragon (Fujian) and Fujian Huayu to court preservation actions or enforcement. The legal framework and system in the PRC, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as Hong Kong. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in the PRC, which could limit TQ Digital, TQ Online and/or Fujian Tianquan's ability to enforce the contractual arrangements and exert effective control over NetDragon (Fujian) and/or Fujian Huayu. If NetDragon (Fujian), Fujian Huayu and/or their ultimate shareholders fail to perform their respective obligations under the contractual arrangements, and TQ Digital, TQ Online and/or Fujian Tianquan is unable to enforce the contractual arrangements, or suffer significant delay or other obstacles in the process of enforcing the contractual arrangements, the Group's business and operations could be severely disrupted, which could materially and adversely affect its results of operations.

*Certain terms of the ND Structure Agreements and the Best Assistant Control Documents may not be enforceable under PRC laws.*

Under PRC laws, an arbitral body granting any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in PRC legal entities in case of disputes shall submit the application to courts in the PRC. Therefore, such remedies may not be available to TQ Digital, TQ Online and/or Fujian Tianquan, notwithstanding the relevant contractual provisions contained in the ND Structure Agreements and the Best Assistant Control Documents. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in NetDragon (Fujian) and Fujian Huayu in favour of an aggrieved party. In the event of non-compliance with such award made by the arbitral body, enforcement measures may be sought from the court.

In the event that NetDragon (Fujian), Fujian Huayu and/or any of their ultimate shareholders breaches any of the ND Structure Contracts and/or the Best Assistant Control Documents, TQ Digital, TQ Online and/or Fujian Tianquan may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over NetDragon (Fujian) and/or Fujian Huayu and conduct its business could be materially and adversely affected and the financial performance of the Group could be materially and adversely affected.

## CONNECTED TRANSACTIONS (Cont'd)

### RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

*The contractual arrangements may be subject to scrutiny by the PRC tax authorities and any finding that TQ Digital, TQ Online, Fujian Tianquan, NetDragon (Fujian) and/or Fujian Huayu owes additional taxes could substantially reduce the consolidated net income and the value of the Group.*

Under the contractual arrangements, NetDragon (Fujian) will transfer all of its profits to TQ Digital and TQ Online, while Fujian Huayu will transfer all of its profits to Fujian Tianquan. Such profits will be net of any accumulated loss, working capital requirements, expenses and tax and therefore substantially reduce NetDragon (Fujian) and Fujian Huayu's taxable income. These arrangements and transactions are related party transactions which must be conducted on an arm's length basis under applicable PRC tax rules. In addition, under PRC laws and regulations, arrangements and transactions among related parties may generally be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. As a result, the determination of service fees and other payments to TQ Digital and TQ Online by NetDragon (Fujian) and to Fujian Tianquan by Fujian Huayu under the contractual arrangements may be challenged and deemed not in compliance with such tax rules. The Group could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements were not entered into on an arm's length basis and therefore adjust the taxable income of NetDragon (Fujian) and/or Fujian Huayu in the form of a transfer pricing adjustment which refers to the prices that one member of a group of affiliated corporation's charges to another member of the group for goods, assets, services, financing or the use of intellectual property. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by NetDragon (Fujian) and/or Fujian Huayu, which could in turn increase NetDragon (Fujian) and/or Fujian Huayu's tax liabilities. Any such adjustment could result in a higher overall tax liability of the Group. In addition, the PRC tax authorities may impose late payment fees and other penalties on NetDragon (Fujian) and/or Fujian Huayu for any unpaid taxes. The consolidated net income of the Group may be materially and adversely affected if NetDragon (Fujian) and/or Fujian Huayu's tax liabilities increase or if it is subject to late payment fees or other penalties. As a result, the value of the Group may be materially and adversely affected.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS (Cont'd)

### ACTIONS TAKEN BY THE GROUP TO MITIGATE THE RISKS

During the year ended 31 December 2020, the Group has implemented the following measures to ensure the effective operation of the Structured Contracts and the Group' s compliance with the Previous Structured Contracts and the Structured Contracts:

- major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- the Board will review the overall performance of and compliance with the Previous Structured Contracts and the Structured Contracts at least once a year;
- the Company will disclose the overall performance and compliance with the Previous Structured Contracts and the Structured Contracts in its annual/interim report to update the Shareholders and potential investors;
- the Directors will provide periodic updates in the annual/interim reports regarding the qualification requirements as stipulated under the FITE Regulations and the development of the Foreign Investment Law, including the latest relevant regulatory development as well as the plan and progress in acquiring the relevant experience to meet these qualification requirements; and
- the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Previous Structured Contracts and the Structured Contracts, review the legal compliance and to deal with specific issues or matters arising from the Previous Structured Contracts and the Structured Contracts.

### UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

It is the intention of the Group to unwind the contractual arrangements when foreign investment in the development and operation of online game and online education business is no longer restricted in the PRC.

However, as at the date of this report, there is no unwinding of any of the contractual arrangements or failure to unwind when the restrictions that led to the adoption of the contractual arrangements are removed.

## CONTINUING CONNECTED TRANSACTIONS

Certain transactions (the "Transactions") entered into by the Group constituted continuing connected transactions under the Listing Rules. Each of the Transactions falls within the ambit of Rule 14A.76(2) of the Listing Rules and is subject to reporting and announcement requirements but exempt from the independent shareholders' approval under Chapter 14A of the Listing Rules. Details of the Transactions subsisted during the year under review are set out as follows:

1. Transaction in relation to the Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851")

   On 19 January 2012, each of TQ Digital and NetDragon (Fujian), as tenant, entered into a renewal tenancy agreement with Fuzhou 851, as landlord, respectively, to renew the tenancy in respect of certain office premises located in Fuzhou City, Fujian Province, the PRC (the "2012 Renewal Tenancy Agreement I" and "2012 Renewal Tenancy Agreement II", respectively). The 2012 Renewal Tenancy Agreement I and the 2012 Renewal Tenancy Agreement II were for a term of three years from 22 January 2012 to 21 January 2015. Fuzhou 851 is a connected person of the Company. As such, the transactions contemplated under the 2012 Renewal Tenancy Agreement I and the 2012 Renewal Tenancy Agreement II (collectively the "2012 Renewal Tenancy Agreements") constituted continuing connected transactions of the Company and should be aggregated under the Listing Rules. The aggregate annual cap for the 2012 Renewal Tenancy Agreements based on the total annual rental payable under the 2012 Renewal Tenancy Agreements for each of the financial years ended 31 December 2012, 2013 and 2014 is RMB6,816,000 (equivalent to approximately HKD8,375,000).

   Further details of the 2012 Renewal Tenancy Agreements are set forth in the announcement of the Company dated 19 January 2012.

   On 22 September 2013, TQ Digital, Fuzhou 851 and NetDragon (Fujian) entered into a novation agreement pursuant to which Fuzhou 851 agreed to change the tenant of the 2012 Renewal Tenancy Agreement I from TQ Digital to NetDragon (Fujian) until the expiry of the 2012 Renewal Tenancy Agreement I on 21 January 2015.

   On 20 January 2015, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2015 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2012 Renewal Tenancy Agreements for a period from 22 January 2015 to 21 January 2018. On 19 January 2018, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2018 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2015 Renewal Tenancy Agreement. As Fuzhou 851 is owned as to approximately 12.63% and 87.37% by DJM Holding Ltd., a substantial shareholder of the Company and Liu Dejian, an executive Director, respectively and therefore, Fuzhou 851 is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the 2018 Renewal Tenancy Agreement constitute continuing connected transactions of the Company. The aggregate annual cap for the 2018 Renewal Tenancy Agreement based on the total annual rental payable under the 2018 Renewal Tenancy Agreement for each of the financial years ended 31 December 2018, 2019 and 2020 is RMB7,724,103 (equivalent to approximately HKD9,412,000).

   Further details of the 2018 Renewal Tenancy Agreement are set forth in the announcement of the Company dated 19 January 2018.

# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

1. Transaction in relation to the Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") (Cont'd)

   On 19 January 2021, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2021 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2018 Renewal Tenancy Agreement. As Fuzhou 851 is owned as to approximately 12.63% and 87.37% by DJM Holding Ltd., a substantial shareholder of the Company and Liu Dejian, an executive Director, respectively and Fuzhou 851 was 100% wholly owned by DJM Holding Ltd. after the completion share transfer on 26 January 2021.

   Therefore, Fuzhou 851 is a connected person of the Company under the Listing Rules. The aggregate values of the right-of-use assets to be recognised by the Group under the 2021 Renewal Tenancy Agreement was estimated to be approximately RMB19,316,000, being the present value of the aggregate tenancy payments using the rate applicable at the commencement date of the Renewal Tenancy Agreement in accordance with HKFRS 16 as discounted using a discount rate which is equivalent to the incremental borrowing rate.

   The transaction contemplated under the 2021 Renewal Tenancy Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules.

2. Transaction in relation to Recreation Centre Agreement between TQ Digital and Fuzhou 851

   On 25 April 2012, TQ Digital entered into a renewal recreation centre service agreement (the "2012 Renewal Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at a recreation centre (the "Recreation Centre") situated at Fuzhou City, Fujian Province, the PRC to the Group and its staff for a period from 25 April 2012 to 24 April 2015 at an annual fee of RMB5,000,000 (equivalent to approximately HKD6,166,000).

   Further details of the 2012 Renewal Recreation Centre Agreement are set forth in the announcement of the Company dated 25 April 2012.

   On 25 September 2013, TQ Digital, Fuzhou 851 and NetDragon (Fujian) entered into a novation agreement pursuant to which Fuzhou 851 agreed to change the service consumer of the 2012 Renewal Recreation Centre Agreement from TQ Digital to NetDragon (Fujian) until the expiry of the 2012 Renewal Recreation Centre Agreement on 24 April 2015.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

2. Transaction in relation to Recreation Centre Agreement between TQ Digital and Fuzhou 851 (Cont'd)

   On 24 April 2015, NetDragon (Fujian) entered into the renewal recreation centre agreement (the "2015 Renewal Recreation Centre Agreement") with Fuzhou 851 for a period from 25 April 2015 to 24 April 2018. On 24 April 2018, NetDragon (Fujian) entered into the renewal recreation centre agreement (the "2018 Renewal Recreation Centre Agreement"), pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at the Recreation Centre to the Group and its staff for a period from 25 April 2018 to 24 April 2021 at an annual fee of RMB9,500,000 (equivalent to approximately HKD11,780,000).

   Further details of the 2018 Renewal Recreation Centre Agreement are set forth in the announcement of the Company dated 24 April 2018.

### CONFIRMATION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2020 and confirmed that these Transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties;

(iii) have been entered into in accordance with the 2012 Renewal Tenancy Agreements, the 2015 Renewal Tenancy Agreement, the 2018 Renewal Tenancy Agreement, the 2012 Renewal Recreation Centre Agreement, the 2015 Renewal Recreation Centre Agreement and the 2018 Renewal Recreation Centre Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded their respective annual caps for the year ended 31 December 2020 as disclosed in the relevant announcements of the Company.

### COMPLIANCE WITH DISCLOSURE REQUIREMENTS

The transactions under the 2018 Renewal Tenancy Agreement and the 2018 Renewal Recreation Centre Agreement are also disclosed in note 52 of the Notes to the Consolidated Financial Statements as related party transactions of the Group. For further details of the nature and extent of each of the connected person's interest in each of the Transactions, please refer to the section headed "Corporate Governance Report – Directors' Interest In Transaction, Arrangement or Contract" below. The Company has complied with the applicable requirements of Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

### AUDITOR'S LETTER ON DISCLOSED CONTINUING CONNECTED TRANSACTIONS

In addition, the Company has engaged its auditor to report on the ND Structure Contracts, the ND Other Contracts, the Best Assistant Control Documents and the Transactions under the 2018 Renewal Tenancy Agreement and the 2018 Renewal Recreation Centre Agreement of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified opinion containing the conclusion in respect of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents which are in compliance with the Rule 14A.56 of the Listing Rules.

The auditor has also issued unqualified opinion containing the conclusions in respect of the Transactions under the 2018 Renewal Tenancy Agreement and the 2018 Renewal Recreation Centre Agreement set out above which are in compliance with the Rule 14A.56 of the Listing Rules.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

## AUDIT COMMITTEE

The Company established the audit committee on 15 October 2007 which comprises three independent non-executive Directors, namely, Chao Guowei, Charles (chairman), Lee Kwan Hung, Eddie and Liu Sai Keung, Thomas.

The audit committee is primarily responsible for the review and supervision of the Group's financial reporting process, risk management and internal control system. It has met with the external auditors of the Group to review the accounting principles and practices adopted by the Company and the audited annual financial statements of the Group for the year ended 31 December 2020.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Listing Rules and the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2020.

## CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the year ended 31 December 2020 as contained in Appendix 14 of the Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out on pages 71 to 83.

## PERMITTED INDEMNITY

The Bye-laws provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

## COMPETITION AND CONFLICT OF INTERESTS

None of the Director nor any of their respective associates, as defined in 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 31 December 2020 and as at the date of this report.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

Details of the share buy-backs are as follows:

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

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

# REPORT OF THE DIRECTORS

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the Listing Rules.

## SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "2018 Share Option Scheme") to replace its previous share option scheme.

The 2018 Share Option Scheme was adopted for the purpose of providing incentives or rewards to participants (being employees (whether full-time or part time), executives or officers of the Group (including executive and non-executive directors of Members of the Group) and business consultants, agents and legal and financial advisers of the Group who the Board considers, in its sole discretion, will contribute or have contributed to the Members of the Group) ("Participants") as incentives and/or rewards for the Eligible Participants' contribution to the Group, and any of its associated companies, the Group's holding company and the subsidiaries and the associated companies to the Group's holding company (the "Members of the Group").

The 2018 Share Option Scheme became effective on 24 May 2018 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 53,341,969 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and 9.51% of the shares of the Company in issue as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HKD5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HKD1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (Cont'd)

The exercise price of the share options shall be not less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options, which must be a date on which the Stock Exchange is open for business of dealing in securities; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "2018 Share Option Scheme") to replace the existing share option scheme which expired on 12 June 2018 (the "2008 Share Option Scheme"). Details of the share options outstanding and movement during the year ended 31 December 2020 are as follows:

2008 Share Option Scheme

| Grantee | Date of grant | Exercise Price *HKD* | As at 1 January 2020 | Granted | Number of share options Exercised | Cancelled | Lapsed | As at 31 December 2020 |
|---|---|---|---|---|---|---|---|---|
| **Independent non-executive Directors** | | | | | | | | |
| Chao Guowei, Charles | 04.12.2013 | 15.72 | 238,500 | – | – | – | – | 238,500 |
| | 31.03.2017 | 23.65 | 100,000 | – | – | – | – | 100,000 |
| Lee Kwan Hung, Eddie | 04.12.2013 | 15.72 | 318,000 | – | – | – | – | 318,000 |
| | 31.03.2017 | 23.65 | 100,000 | – | – | – | – | 100,000 |
| Liu Sai Keung, Thomas | 23.04.2012 | 5.74 | 300,000 | – | 300,000 | – | – | – |
| | 04.12.2013 | 15.72 | 318,000 | – | – | – | – | 318,000 |
| | 31.03.2017 | 23.65 | 100,000 | – | – | – | – | 100,000 |
| **Others** | | | | | | | | |
| Employees | 28.04.2011 | 4.80 | 341,867 | – | – | – | – | 341,867 |
| | 22.07.2011 | 4.60 | 8,000 | – | – | – | – | 8,000 |
| | 23.04.2012 | 5.74 | 130,017 | – | 2,500 | – | – | 127,517 |
| | 12.09.2012 | 7.20 | 50,250 | – | – | – | – | 50,250 |
| | 16.01.2013 | 11.164 | 174,450 | – | 43,200 | – | – | 131,250 |
| | 25.04.2014 | 14.66 | 278,000 | – | – | – | – | 278,000 |
| **Total** | | | 2,457,084 | – | 345,700 | – | – | 2,111,384 |

*Note:*

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

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (Cont'd)

2018 Share Option Scheme

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme disclosed above and set out in note 43 of Notes to the Consolidated Financial Statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

## SHARE AWARD SCHEME

The Company

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

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

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

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

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

# REPORT OF THE DIRECTORS

## SHARE AWARD SCHEME (Cont'd)

The Company (Cont'd)

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

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

Best Assistant Education Online Limited ("Best Assistant")

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

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

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

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

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

## ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

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

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

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

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

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

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

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

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

# REPORT OF THE DIRECTORS

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

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

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

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

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

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

## TOP-UP PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE (Cont'd)

Completion of the Top-up Placing took place on 17 February 2020 and the Top-up Subscription took place on 25 February 2020. A total of 33,000,000 Top-up Placing Shares have been successfully placed to not less than six placees and the 33,000,000 Top-up Subscription Shares had been allotted and issued to Mr. Liu Dejian pursuant to the general mandate. The aggregate gross proceeds from the Top-up Placing and Subscription are approximately HKD782.10 million and the aggregate net proceeds from the Top-up Placing and Subscription are approximately HKD773.44 million after deducting the commission payable to the Placing Agent, professional fee and other related costs and expenses in relation to the Top-up Placing and Subscription. On such basis, the net price of each Top-up Subscription Share is approximately HKD23.46.

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

| Net proceeds raised from the Top-up Placing and Subscription | Intended use of the proceeds | Utilised proceeds as of 31 December 2020 | Unutilised proceeds as of 31 December 2020 |
|---|---|---|---|
| HKD773.44 million | General corporate purpose and to fund the expansion of education business | HKD280.62 million | HKD492.82 million |

Subject to development of the Covid-19 pandemic and the global economic conditions, the Group will gradually utilise the unutilised net proceeds depending on its business needs and is expected to utilise the residual amount of such net proceeds within several years.

# REPORT OF THE DIRECTORS

## AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), the auditor of the Company. A resolution will be submitted in the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board

**Leung Lim Kin, Simon**
*Vice Chairman*

Hong Kong, 25 March 2021

# CORPORATE GOVERNANCE REPORT

The Directors believe that good corporate governance practices serve as an effective risk management for the Company and hence, the shareholders of the Company will benefit from the high standard of corporate governance.

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules.

Throughout the year, save as disclosed in this Corporate Governance Report, the Company has complied with the provisions set out in the CG Code in Appendix 14 to the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established its code of conduct regarding securities transaction by Directors, senior management and relevant employees on terms no less exacting than the required standard indicated by the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year under review.

## THE BOARD

The Board is composed of five executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 23 to 28. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

Each of the non-executive and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commencing on 24 June 2008 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the current term unless and until terminated in accordance with the terms of the appointment letter or by either party thereto giving to the other not less than three months' prior written notice.

### Duties of the Board including delegation to management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the committees and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the audit committee, the remuneration committee, the nomination committee and the share award scheme committee. Further details of these committees are set out in this report.

# CORPORATE GOVERNANCE REPORT

Duties of the Board include:

(i) ensuring, maintaining and overseeing the internal control systems of the Group;

(ii) setting the objectives of management of the Group;

(iii) monitoring the performance of management of the Group;

(iv) ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and

(v) overseeing the management of NetDragon's relationships with stakeholders, such as, shareholders, customers, the community, interest groups, employees and others who have a legitimate interest in the responsible conduct of the Group's business.

During the year ended 31 December 2020, the Board held four meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2020 is set out below:

| Directors | Full Board | Audit Committee | Remuneration Committee | Nomination Committee | Share Award Scheme Committee* | Annual General Meeting | Extraordinary General Meeting |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Liu Dejian (Chairman) | 4/4 | N/A | N/A | N/A | N/A | 0/1 | 0/1 |
| Leung Lim Kin Simon (Vice Chairman) | 4/4 | N/A | N/A | N/A | N/A | 1/1 | 1/1 |
| Liu Luyuan (Chief Executive Officer) | 4/4 | N/A | N/A | N/A | N/A | 0/1 | 0/1 |
| Zheng Hui | 4/4 | N/A | N/A | N/A | N/A | 0/1 | 0/1 |
| Chen Hongzhan | 4/4 | N/A | N/A | N/A | N/A | 0/1 | 0/1 |
| **Non-executive Director** | | | | | | | |
| Lin Dongliang | 4/4 | N/A | N/A | N/A | N/A | 0/1 | 0/1 |
| **Independent non-executive Directors** | | | | | | | |
| Chao Guowei, Charles | 4/4 | 4/4 | 1/1 | 1/1 | N/A | 0/1 | 0/1 |
| Lee Kwan Hung, Eddie | 4/4 | 4/4 | 1/1 | 1/1 | N/A | 1/1 | 1/1 |
| Liu Sai Keung, Thomas | 4/4 | 4/4 | 1/1 | 1/1 | N/A | 0/1 | 0/1 |

* The Share Award Scheme Committee of the Company did not hold any meeting during the year under review.

The CG Code provision E.1.2 requires that the Chairman of the Board should attend the annual general meeting of the Company ("AGM") and should invite the Chairman of the audit, remuneration, nomination and any other committee (as appropriate) to attend the AGM and in their absence, he should invite another member of the committee or failing this his duly appointed delegate(s) to attend. These persons should be available to answer questions at the AGM. Mr. Liu Dejian, the Chairman of the Board, could not attend the AGM of the Company held on 3 June 2020 as he had another engagement which was important to the Company's business. Mr. Lee Kwan Hung, Eddie and Mr. Liu Sai Keung, Thomas both are members of the audit committee, Mr. Kee Kwan Hung, Eddie attended the AGM held on 3 June 2020. Due to other commitment, Mr. Liu Sai Keung, Thomas and the chairman of the audit committee, Mr. Chao Guowei, Charles did not attend the AGM of the Company held on 3 June 2020.

Board and committee minutes are recorded in appropriate detail. Draft minutes are circulated to Directors for comments within reasonable time after each meeting and the final version is open for Directors' inspection.

The Directors are entitled, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

In full compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company.

In addition, the Company has received from each of the independent non-executive Directors an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. These Directors have served on the Board for more than nine years and their independence have been verified. The Nomination Committee is fully satisfied that they demonstrate complete independence in character and judgement both in their designated roles and as board members. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors are also provided with monthly updates which contain periodic financials with summaries and covering highlights of the Company's major businesses of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The non-executive Director and independent non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT

With reference to the ND Structure Contracts entered into among TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, are interested in an aggregate of 99.96% in NetDragon (Fujian). Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts would technically constitute connected transactions. Details for the ND Structure Contracts and the ND Other Contracts are set out in pages 44 to 47 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

With reference to the Best Assistant Control Documents entered into among Fujian Huayu and NetDragon (Fujian), NetDragon (Fujian) and Fujian Huayu (being a subsidiary of NetDragon (Fujian)) are technically associates of Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company or its subsidiaries, except Best Assistant (Cayman) and subsidiaries of Best Assistant (Cayman) (the "Best Assistant Group Companies") on one hand and Best Assistant (Cayman) or Best Assistant Group Companies on the other hand, including the Best Assistant Control Documents would technically constitute connected transactions. Details for the Best Assistant Control Documents are set out in pages 48 to 52 in the section of "Report of the Directors" under the paragraphs of "Best Assistant Control Documents".

With reference to the continuing connected transactions for the Renewal Tenancy Agreement entered into between TQ Digital or NetDragon (Fujian) on one hand and Fuzhou 851 on the other and with reference to the continuing connected transactions for the Renewal Recreation Centre Agreement and the Renewal Recreation Centre Agreement entered into between TQ Digital or NetDragon (Fujian) on one hand and Fuzhou 851 on the other hand, Fuzhou 851 is owned as to approximately 88.39% and 11.61% by DJM Holding Ltd., a substantial shareholder of the Company and Mr. Liu Dejian, an executive Director, respectively. Fuzhou 851 was 100% wholly owned by DJM Holding Ltd. after the completion of the share transfer in January 2021. Thus, Fuzhou 851 is deemed to be a connected person to the Company.

With reference to the Series A Agreement entered into, among others, Best Assistant (Cayman) and the Series A Investors for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares for a total consideration of USD52,500,000 (equivalent to approximately HKD409.5 million), DJM Holding Ltd. was allotted 2,987,605 Series A Preferred Shares. DJM Holding Ltd. is a substantial shareholder of the Company and is wholly owned by Mr. Liu Dejian, the chairman and an executive Director. Thus, DJM Holding Ltd. is considered as a connected person to the Company.

Details for the continuing connected transactions are set out in pages 57 to 60 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance of the Company during the year ended 31 December 2020 or as at the end of the year.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the chairman and the chief executive officer are held by Mr. Liu Dejian and Mr. Liu Luyuan, respectively.

In order to reinforce their respective independence, accountability and responsibility, the role of the chairman is separated from that of the chief executive officer. The chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice and ensuring the effectiveness of the Board. With the support of the senior management, the chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The chief executive officer focuses on managing the Company and its subsidiaries, developing and implementing objectives, policies and strategies approved and delegated by the Board. The chief executive officer is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

## 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 CG Code Provision. The primary duties of our audit committee are to review and supervise our financial reporting process, risk management, internal control and corporate governance systems.

The Audit Committee reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continuing connected transactions and connected transactions relating to ND Structure Contracts, ND Other Contracts and Best Assistant Control Documents of the Group.

The Audit Committee held two meetings during the year ended 31 December 2020. The major work performed by the Audit Committee in respect of the year ended 31 December 2020 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2020, reviewing the audited financial statements and final results announcement for the year ended 31 December 2020, reviewing the work of the Group's internal audit and assessing the effectiveness of the Group's systems of internal control, risk management, corporate governance and cost control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, and training programmes and budget.

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

# CORPORATE GOVERNANCE REPORT

The written terms of reference are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2020 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board recognises its responsibility for maintaining a sound and effective system of internal control to safeguard the shareholders' investment and the Company's assets, and for reviewing its effectiveness. The Board has entrusted the Audit Committee and professional external consultant with the responsibility to review the internal control and risk management systems of the Group, which include financial, operational and compliance controls and risk management functions.

During the year under review, the Board has conducted review on the effectiveness of the internal control and risk management system of the Group through discussion with the audit committee on audit findings and control issues. These procedures provide reasonable, but not absolute, assurance against material errors, losses and fraud, and manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Board has also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board, based on the review of the Audit Committee, is satisfied that the Group has maintained sound and effective risk management and internal control systems for the year ended 31 December 2020.

## REMUNERATION COMMITTEE

The Company established the remuneration committee (the "Remuneration Committee") on 15 October 2007 which adopts the model of determining remuneration packages and policy for all executive Directors and senior management and make recommendation on the remuneration of non-executive Directors to the Board. The remuneration of all our Directors and senior management is subject to regular monitoring by the Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate.

During the year ended 31 December 2020, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Remuneration Committee also reviewed the remuneration of the Directors by assessing their performance and with reference to the remuneration level of directors of comparable listed companies and also approved the terms of the executive Directors' service contracts.

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

The written terms of reference are posted on the websites of the Stock Exchange and the Company.

## EMPLOYEE AND EMOLUMENT POLICY

The emolument policy of the employees of the Company is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the executive Directors and senior management of the Company are reviewed and determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has adopted the Share Option Scheme, the NetDragon Share Award Scheme and the Best Assistant Share Award Scheme to motivate Directors and eligible employees. Details of the schemes are set out in the paragraphs headed "Share Option Scheme" and "Share Award Scheme". None of the directors waived any emoluments during the year ended 31 December 2020.

## NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision. The Nomination Committee determines the nomination policy and follows a formal, fair and transparent procedure for the appointment of new Directors to the Board. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and select or make recommendations to the Board on the selection of candidates nominated for directorships and succession planning for directors. During this process, the Nomination Committee considers candidates based on merit and with due regard to the benefits of diversity on the Board.

During the financial year ended 31 December 2020, a meeting was held to review the structure, size and composition of the Board and assessed the independence of the three independent non-executive Directors of the Company. The Nomination Committee is of the view that the current Board demonstrates a balanced composition with sufficient independence element.

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

Potential new directors are selected on the basis of their qualifications, skill and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

On 30 August 2013, the Board adopted the board membership diversity policy for maintaining the appropriate skills and experience required by the Company's business and a diversity of perspectives on the Board.

# CORPORATE GOVERNANCE REPORT

The following is a summary of the board diversity policy:

- reviewing and assessing the composition of the Board to maintain an appropriate range and balance of talents, skills, experience and background on the Board;
- recommending candidates for appointment to the Board by considering merit against objective criteria and with due regard for the benefits of diversity on the Board; and
- conducting the annual review of the effectiveness of the Board by considering the balance of talents, skills, experience, independence and knowledge of the Board and the diversity of the Board.

The achievement of these criteria will be measurable on an objective review, which can enhance the diversity of background and experience of individual directors and the effectiveness of the Board in protecting shareholders' interests.

The written terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company.

Nomination Policy

The Nomination Committee recommends candidates for nomination to the Board, which approves the final choice of candidates. The Nomination Committee was responsible to maintain the nomination policy of the Company (the "Nomination Policy") and review the same regularly. The objective of the Nomination Policy is to assist the Company in fulfilling its duties and responsibilities as provided in its terms of reference. This Nomination Policy sets out, inter alia, the selection criteria and the evaluation procedures in nominating candidates to be appointed or re-appointed as Directors of the Company.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

(a) Reputation for integrity;

(b) Accomplishment, experience and reputation in the business and other relevant sectors relate to the Company and/or its subsidiaries;

(c) Commitment in respect of sufficient time and attention to the Company' s business;

(d) Diversity in all aspects, including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience;

(e) The ability to assist and support management and make significant contributions to the Company' s success;

(f) Compliance with the criteria of independence as prescribed under Rule 3.13 of the Rules Governing the Listing of Securities on Main Board of The Stock Exchange of Hong Kong Limited for the appointment of an independent non-executive Director; and

(g) Any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The Committee believes that independence is an important part of fulfilling the Directors' duty to supervise the management of the business and affairs of the Company. Non-executive Directors and Executive Directors are required to disclose his/her competing businesses to the Company. Cross-directorships in Hong Kong or overseas between Directors are also reviewed annually. The Nomination Committee is accountable for assessing whether any competing businesses or interlocking directorships could materially interfere with the exercise of objective and unfettered judgement by relevant Directors or their ability to act in the best interests of the Group.

## ND MANAGEMENT COMMITTEE

The Company established the ND Management Committee pursuant to the ND Structure Contracts to oversee the business and operations of NetDragon (Fujian).

The ND Management Committee comprises four members, of which each of TQ Digital and NetDragon (Fujian) is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the ND Management Committee may only be removed by the party who originally appointed such member. As a general requirement, the members appointed by NetDragon (Fujian) must also be the equity holders of NetDragon (Fujian) as well as directors of TQ Digital. In the case where the number of members who concurrently act as a director of both TQ Digital and NetDragon (Fujian) is less than two, TQ Digital is entitled to appoint an additional member of the ND Management Committee. As such, under the ND Structure Contracts, the ND Management Committee is allowed to have a maximum of five members.

Currently, the ND Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by NetDragon (Fujian), and Zheng Hui and Chen Hongzhan who were appointed by TQ Digital. The directors of NetDragon (Fujian) comprise Liu Dejian, Liu Luyuan, Zheng Hui, being executive Directors, and Wang Song, being a member of our senior management. Further details of the above members of the ND Management Committee are set out in the section headed "Directors and Senior Management" in this annual report.

# CORPORATE GOVERNANCE REPORT

## BEST ASSISTANT MANAGEMENT COMMITTEE

The Best Assistant Management Committee was established on 3 March 2015 pursuant to the Best Assistant Control Documents to oversee the business and operations of Fujian Huayu. Through its control over Fujian Huayu, the Best Assistant Management Committee is also able to oversee the business and operations of the subsidiaries of Fujian Huayu. The Best Assistant Management Committee comprises four members, of which each of Fujian Tianquan and Fujian Huayu is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the Best Assistant Management Committee may only be removed by the party who originally appointed such member. In the case where the number of members who concurrently act as a director of both Fujian Tianquan and Fujian Huayu is less than two, Fujian Tianquan is entitled to appoint an additional member of the Best Assistant Management Committee. As such, under the Best Assistant Control Documents, the Best Assistant Management Committee is allowed to have a maximum of five members.

Currently, the Best Assistant Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by Fujian Huayu, and Zheng Hui and Wang Song, who were appointed by Fujian Tianquan. The directors of Fujian Huayu comprise Liu Dejian, Liu Luyuan, Zheng Hui, Chen Hongzhan, being executive Directors, and Wang Song. Zheng Hui is also the general manager of Fujian Huayu.

## SHARE AWARD SCHEME COMMITTEE

In recognition of the contribution of employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company established a share award scheme committee on 2 September 2008 for the purpose of administration of the Share Award Scheme.

Our share award scheme committee comprises two independent non-executive Directors, namely Lee Kwan Hung, Eddie and Liu Sai Keung, Thomas and members of the senior management, namely Yam Kwok Hei, Benjamin and Lau Hak Kin.

## TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code effective on 1 April 2012 on Directors' training. In 2020, all Directors have participated in continuous professional development by reading materials/in house briefing on regulatory and corporate governance matters to develop and refresh their knowledge.

## DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

## AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's external auditors, is set out as follows:

| | RMB'000 |
|---|---|
| Audit services | 7,214 |
| Non-audit services | 269 |
| | 7,483 |

The above non-audit services include professional advisory fees relating to the quarterly review services, accounting services and internal control review.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors acknowledge such responsibilities. The Directors, having made appropriate enquires, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statements of the Company's external auditors regarding their responsibilities on the financial statements are set out in the Independent Auditor's Report on pages 105 to 110.

## COMPANY SECRETARY

Mr. Lau Hak Kin, Financial Controller and Head of Compliance and Corporate Affairs of the Company, has been appointed by the Company as company secretary since September 2014. He is also the primary contact person of the Company. During the year ended 31 December 2020, Mr. Lau Hak Kin has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company recognises the importance to maintain an on-going dialogue with the shareholders. The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors. A shareholders' communication policy, which is reviewed by the Board on regular basis, had been established to promote effective engagement with shareholders, both individual and institutional, investors and other stakeholders, giving them ready access to balanced and understandable information about the Company and corporate proposals and making it easy for Shareholders to participate in general meetings.

# CORPORATE GOVERNANCE REPORT

## PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, according to article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The provisions for a shareholder to propose a person for election as a director of the Company are laid down in article 88 of the Company's Articles of Association. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

## PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar and transfer office: Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

For other enquires or proposals to the Board, Shareholders may send written enquiries to the Company by fax: (852) 2850 7066 or mail to Units 2001-05 & 11, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

## SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company maintains a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

## DIVIDEND POLICY

Dividend Policy is adopted and approved by the board of directors of the Company as the guideline on dividend distribution regarding future dividends to be paid by the Company with effect from 26 March 2019. The Company is committed to maintaining sufficient resources and flexibility to meet the Company' s financial and operational requirements. At the same time, the Company continually seeks ways to enhance shareholders' value to ensure sustainable long-term yields for shareholders.

The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company' s financial results, future prospects and other factors, and subject to:

- the Articles of Association of the Company;
- the applicable restrictions and requirements under the laws of the Cayman Islands;
- any banking or other funding covenants by which the Company is bound from time to time;
- the investment and operating requirements of the Company; and
- any other factors that have material impact on the Company.

Under the Cayman Islands Companies Act and the Articles of Association of the Company, all of our shareholders have equal entitlement to dividends and distributions. The Board shall have the right to review the Dividend Policy from time to time as it deems fit according to the financial and business development requirements of the Company.

## SHAREHOLDERS RELATIONS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company has provided an effective communication platform to the public and the shareholders.

There has not been any significant change in the Company's constitutional documents during the year ended 31 December 2020.

The AGM will be held at Plaza Meeting Room, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 3 June 2021.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

The Board is pleased to present the Environmental, Social and Governance ("ESG") report of the Group for the year ended 31 December 2020 in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The ESG Report focuses of the principle business activities of the Group that have significant ESG impacts and covers the sustainability performance and policies on the Company and its subsidiaries.

## ESG GOVERNANCE

The Group believes that responsible corporate practices are important to the sustainable business development of the Group and the community. The Board is responsible for overseeing the management of ESG related issues and risks in business operations, implementing the ESG strategies, and reviewing the ESG report. In addition, regular briefings and reporting are arranged to keep the Board abreast of the latest ESG trend and the Group's ESG performance. The management and staff of the Group with corresponding expertise in ESG issues would assist the Board in identifying relevant ESG issues to the Group, monitoring the progress and implementation of ESG policies, procedures and initiatives.

## STAKEHOLDER ENGAGEMENT

Stakeholders' opinions are important for the Group to achieve continuous improvement. The Group maintains regular communication channels with key stakeholders, including customers, employees, suppliers, media, shareholders, regulators and the communities, to understand their expectations and address their concerns. The Group collects feedbacks from stakeholders regularly through a range of channels such as general meetings, Company websites, interviews, constructive discussions, surveys and feedback programmes.

## IDENTIFYING MATERIAL ISSUES

Stakeholder participation facilitates the identification of potential risks as well as business opportunities. Based on the stakeholders' feedback from various communication channels, ESG issues were ranked and prioritised in terms of their importance to stakeholders and to the Group's business development. Issues that are considered material to our stakeholders and the Group are development and trainings, management of the supply chain, product responsibility and community investment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A. ENVIRONMENTAL PROTECTION

### Emissions

The Group currently engages in online gaming and online education business and its nature of business is not related to manufacturing or other business which produces emissions (including greenhouse), waste (hazardous and non-hazardous), or other business which have a significant effect on the environment. Therefore, the Company is of the view that the KPIs relating to the environmental aspects under Part A of Appendix 27 are not applicable due to the immaterial impact on the environment by the Company's business.

The Group has enhanced its management of emissions through technological and recycling solutions that seek to reduce the emission of relevant pollutants and greenhouse gases, waste discharged into water and land, as well as the generation of hazardous and non-hazardous waste.

### Protection of Environment

The Group has been minimizing the adverse effect of its business on the environment by enhancing operational efficiency and implementing environmental measures. All the operations of the Group are committed to ensure compliance with the relevant laws of the jurisdiction where it belongs and to review the practices of business on a regular basis, in order to identify methods for enhancing sustainable development and deploy measures for more effective use of resources.

### Energy Conservation

The Group runs its daily office operation with the objectives of energy conservation, adequate utilisation of resources with waste-recycling, as well as enhancing environment awareness of the staff. The Company has spared no effort to advocate "reducing", "re-use" and "recycling" and reduce energy consumption by encouraging the staffs the use of email for internal and external communications, using e-files at the server, double-sided printing and photocopying, promotion of the use of recycled paper, reduce unnecessary printing and photocopying, and making best effort in recycling all office supplies and equipment.

### Climate change

Climate change has been an alarming issue all over the world. Some may even coin it as climate "emergency". Hence, the Group has identified and assessed the risks of climate change and developed measures to safeguard the safety of its employees, including strictly complying with relevant extreme weather guidelines issued by the government. The Group has worked out emergency guidelines and measures to reduce damage from disaster attacks in the future. The Group will review its policies for climate change on a regular basis to ensure their effectiveness.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B. SOCIETY

### I. Employment

The Group offers equal opportunities to all job seekers regardless of race, color, nationality, religion, gender, age, disability or other bias prohibited by any other relevant laws. The policy of the Group is to select the most suitable person who corresponds to particular job requirements taking into account of educational background, working experiences, skills, personal integrity and considerations such as potential to grow in line with the Group. The Group treats every staff with equality and none of their appointment, remuneration packages and promotions will be affected on the grounds of their social identity, such as race, ethnicity, nationality, gender, religion, age, sexual orientation, political grouping and marital status.

In order to attract, nurture and retain qualified employees, the Group is committed to offer professional development opportunities and a healthy working environment for all the employees. In addition, the Group also pursues the principle of employment with equality. The Group requires the employees to bear high standard of business ethics and promotes good personal integrity.

The Group conducts reviews of the remunerations and benefits scheme regularly to ensure the remunerations and benefits remain competitive. Moreover, the Group continues to review the scheme annually and adjusts the remunerations and other benefits of the employees in accordance with the prevailing market condition, including medical scheme, health check, overseas business trip insurance, training allowance and retirement benefits.

The Group strongly advocates community spirit of mutual respect and equal opportunities. The Group strictly complies with the laws of Equal Opportunities, including Sex Discrimination Ordinance, Race Discrimination Ordinance, Disability Discrimination Ordinance and Family Status Discrimination Ordinance. To ensure diversification and equality in career opportunities, the principles of recruitment, remuneration and promotion of the Group are based on the working experiences, skills and performance of the employees, who will not be discriminated on the grounds of age, race, disability, gender or family.

As at 31 December 2020, the Group had its overall headcount of 6,442 with 98% of full-time employees, 91% of the employees were based in PRC and Hong Kong and the remaining 9% were based overseas including US and UK. Male and female employees accounted for 64% and 36% of the overall headcount respectively. Employees aged between 30 and 50 accounted for 48% of the overall headcount while employees aged under 30 and above 50 accounted for 49% and 3% of the overall headcount respectively.

II. Health and Safety

Health and safety of employees are the most important obligations concerned by the Group. Our management team endeavors to identify, assess and eliminate possible health and safety risks existing in our operations. During the past year, no material work-related health and safety incidents had occurred in the Group with zero work-related death.

*1. Safety*

1.1. Security staff are deployed on duty for 24 hours a day to monitor full coverage of all working venues and they conduct patrols and inspections strictly to ensure a safe working environment. We have established fire services system and professional fire services team in place and organise regular training sessions on fire safety annually, such as fire and evacuation drills, rescue drills for lift-trapped victims and explosion prevention drills, to improve our rescue and employees' self-rescue ability and safety awareness.

1.2. We have also formulated safety standards and rules for practices and operations in various job positions, accompanied by a comprehensive training programme, to ensure the operational safety of employees.

1.3. During the pandemic, the Company has developed clear-cut mechanism for epidemic prevention and control and gained in-depth understanding of the relevant procedures including those of entering the Company, quarantine and disinfection, which enabled us to handle emergencies in an orderly and efficient manner. These helped us to ensure that offices in the two places will survive the epidemic and resume normal work order quickly. No case of infection was found following the resumption of work.

*2. Health*

In compliance with the national EHS regulations, we have continuously improved our environmental safety protective system to ensure a safe working environment and hold ourselves accountable to the society and our employees.

2.1. Material security: The Group has established strict rules for various processes, such as procurement, acceptance inspection and equipment maintenance, to ensure food safety and normal operation of equipment.

2.2. Energy consumption such as water and electricity has been under strict control at our workplace to reduce emissions and save energy.

2.3. We organise regular medical examination for all staff annually and has established a medical clinic with recruited professional doctors and nurses as well as required facilities to ensure that diagnosis and treatment are provided for common diseases, and preliminary treatment will be provided to accidental injury cases for timely transfer to hospital for further treatment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

III. Development and Trainings

*Staff Training*

NetDragon University is a base for nurturing management and technological talents of the Group. As a powerful support and an important part of the overall strategy of the Group, NetDragon University is committed to providing professional and systematic training services to staff. In 2020, according to different business areas, NetDragon University has established nine functional organisations including management college, curriculum research and development department, verification research and development department, learning operation department, expansion college, enterprise-school cooperation department, digital education college, programming technology college and design college. Based on the application practice of Huayu Education concepts in NetDragon's post certification training, we have improved the NetDragon's learning methodology system, and promoted the application of such system both internally and externally. We have created the NetDragon job skill certification system based on the transaction list, which has been applied to help NetDragon's students develop their careers and upgrade our talents.

*Achievements in 2020*

In 2020, to support the strategic development and key businesses of the Company, the enterprise-school cooperation department completed the Fuzhou Software Shuangrong project and the construction of key specialty pilot; while the learning operation department held the MAD forum to build up NetDragon's development ecosystem, thereby facilitating the relevant projects in the education business of the Company to achieve annual goals and upgrading of service objectives. Also, in response to the request for "corporate affairs management" brought by the Company, certification system based on the transaction list has been created in combination with talent management to accelerate talent development. In management training, according to the Company's latest requirements for management, we improved the iteration of management post training courses and offered these courses to management staff to facilitate the management upgrading of the Company.

In 2020, NetDragon University organised a total of 238 various training events with total attendance of 10,449 participants (excluding external forums and teaching within NetDragon University.

*1. External Training:*

Fuzhou Software Shuangrong project: Based on the Company's key businesses and in quick response to requirements, in 2020, there were 27 lecturers showing interest in teaching at Fuzhou Software. 16 lecturers were selected in supporting professional teaching at Fuzhou Software, covering 12 courses with total teaching time of 656 hours.

MAD Forum: The MAD (Make A Difference) Forum is aimed to building the development ecosystem in places where NetDragon operates such as Fuzhou, Xiamen, Chengdu, Wuhan, Chongqing and Beijing, which may be developed into the developer alliance of NetDragon's education platform in the future to promote NetDragon's education platform technology, attract outstanding talents and facilitate external cooperation. Currently, a total of ten sessions have been organised with offline attendance of almost 800 participants, accumulating almost 110,000 online clicks.

*2. Internal Training:*

Inheritance and implementation of corporate culture: First of all, in terms of corporate culture promotion, we used the form of clearing game levels and created a craze for "corporate culture certification exam" in various departments within the Company. Secondly, we create a unique cultural book product "Heart Sign-in Articles Collection (心簽到)", which is unique to NetDragon, to disseminate and share "valuable content" in the relevant articles, develop a corporate culture of thinking every day and promote communication, learning and growth for everyone. Up to now, six issues have been published, each of which has selected over 200 excellent articles from over 200 authors with a total of more than 450,000 words. Currently, a total of 3,000 books have been printed.

Skills promotion project for key positions: In response to the Company's requirements for upgrading students in key positions, we have conducted in-depth cooperation with the programming center, engineering college and other departments in skills upgrading, and launched the engineering college architecture special project, Java post intermediate skills certification project, commercial sales essential skills certification project, programming center assistant main programme development special project, campus recruitment training and training camp before formal employment for programme development (C++), campus recruitment training and training camp before formal employment for programme development (Web frontend), U3D programme development intermediate certification and other projects. By integrating internal and external training resources, sorting out key position learning maps and competency standards, we facilitate core business units to promote and implement key position talent development projects, and promote the enhancement of competence/skill improvement/performance improvement of key position personnel in core business units.

Management training projects: We launched the management post compulsory study project and adopted the O2O operation mode (online micro-classes & community + practical tasks + offline workshops) to foster development of management staff. Moreover, we have been improving the iteration of management post training courses according to the Company's latest requirements for management, and offered these courses to management staff to facilitate the management upgrading of the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Routine training projects:

Skills training: In 2020, NetDragon University organised a total of 69 trainings on skills with 4,726 participants, including 44 NetDragon Skills Forums with 3,771 participants.

Experiential training: The development of 52 teams was completed with 1,977 participants.

New staff training: a total of 25 training sessions were organised for new staff with 1,014 participants and one offline marathons was organised for new staff with 35 participants.

Certification projects:

Internal affairs certification: According to statistics of certification projects made by the Company in 2020, we have 1,265 certification subjects, including 705 subjects pending optimisation and 91 subjects used in various departments. As of the date of this report, 445 subjects have been developed by various departments and 18 subjects are in the process of development or optimisation.

Design methodology certification: a total of 14 sessions of design methodology primary certification were organised with 450 participants in total; 1 session of Fuzhou Software design methodology completed with 30 participants in total and 24 sessions of design methodology improvement class certification with 130 participants in total.

*3. Construction of Platform Function and Content:*

Construction of platform function: In response to the requirements for essential post knowledge certification, we promoted to launch the optimisation functions of question database and content library. We conducted internal test for AI learning companion function to support the AI training projects. Simulation Training functions were integrated to the platform with access to report and data in relation to individual learning. These functions enable us to conduct front-end/back-end analysis on data about learning.

Construction of platform content: In 2020, a total of 1,671 courses were uploaded, including 76 training certification courses.

Platform operation: During 2020, the accumulative learning time was 225,738.65 hours with average learning time per person of 7.79 hours; 99.25% of male employees and 99.15% of female employees attended the training courses with average learning time of 8.79 hours and 10.67 hours. 99.43% of senior management, 99.39% of middle management and 98.68% of other employees have attended the training courses with average learning time of 9.23 hours, 8.86 hours and 10.26 hours. The Company organised 336 examinations which are three examination questions per day in nature, with average daily participation of 1,168 persons and a rate of accuracy of 55%.

Overview of administrator cultivation: In 2020, a total of 72 administrators were cultivated and the accumulative number of administrators cultivated amounted to 261 persons.

## IV. Labour practices

The Group has been in strict compliance with the Employment Ordinance and in no circumstances engaged in any forced labour or child labour.

## V. Management of the Supply Chain

The Company has established a set of comprehensive system for the management of the supply chain, aiming to select quality suppliers on a strict basis while building a stable cooperative relationship with them, and to guarantee their cooperation meets the social, legal, moral and environmental standards. Prior to the introduction of suppliers, the Group will perform due diligence in respect of the corporate qualification, capability of production, operation and management of the suppliers, and products qualification certification, conduct strict inspection of product quality, make sure quality cooperating manufacturers are introduced, enter into comprehensive supply contracts and quality guarantee agreement with the suppliers in the course of cooperation, regulate strictly the mechanism of admission, assessment and replacement of suppliers, compile a list of qualified suppliers and conduct regular assessment of the system to eliminate the sub-standard ones.

In 2020, Promethean had a total of 22 key suppliers. The geographical split of these suppliers was as follows:

| **Indicators** | **2020** | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Number of Key suppliers[1] | **22** | 21 | 23 | 17 | 15 | 11 |
| By region: | | | | | | |
| Asian countries other than PRC and Hong Kong | **3** | 3 | 2 | 2 | 4 | 1 |
| UK | **0** | 1 | 2 | 0 | 0 | 1 |
| US | **7** | 8 | 11 | 5 | 1 | 1 |
| PRC | **6** | 7 | 6 | 7 | 5 | 4 |
| UAE | **1** | 0 | 0 | 0 | 0 | 0 |
| Hong Kong | **2** | 2 | 1 | 1 | 4 | 3 |
| European Countries other than UK | **3** | 0 | 1 | 2 | 1 | 1 |
| Total amounts invoiced by key suppliers (GBP million) | **198.2** | 175.1 | 246.9 | 183.7 | 95.8 | 90.7 |

1 Key suppliers refers to suppliers of products/services whose total contract sum amounted to GBP1 million or more in any given year.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Promethean has a documented supplier on-boarding process that is undertaken in respect of significant suppliers of products to the Group. This process includes a review of quality processes, Health & safety, training & development, labour ethics and the environment.

The Promethean's operations team periodically visit significant suppliers in the normal course of business.

During the year, the Group was not aware that any key suppliers had any significant actual and potential negative impact on business ethics, environment protection, human rights and labour practices nor was the Group aware that any of them had any non-compliance incident in respect of human rights issues.

Engaging suppliers: Key ODM suppliers are managed by the Quarterly Business Review (QBR) process.

The number of suppliers where the practices are being implemented. Promethean's 2 suppliers of Interactive Flat Panels account for 70% of total company spend are managed by the QBR process. Other Key suppliers based on pareto 80% value are managed by 6 or 12 month business reviews.

These are implemented and monitored by way of a QBR presentation pack which is produced for the review meeting and subsequent actions logged and reviewed/closed out at the following meeting.

*Products and services responsibilities*

In 2020, Promethean was not aware of any incidents of non-compliance with regulations and voluntary codes concerning the provision and use of the Group's products and services, including but not limited to, product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that have a significant impact on the Group.

Promethean Limited has transitioned and is now certified to the revised International Environmental Management Systems Standard ISO 14001:2015.

In accordance with the ISO 14001 certification requirements, Promethean Limited are subject to annual surveillance audits and a recertification audit every three (3) years. At the last surveillance audit, which, due to Covid Restrictions, took place remotely in September 2020, Promethean Limited was confirmed as demonstrating that Promethean Limited operated in line with the requirements of ISO14001:2015. The next recertification audit is expected to take place in July 2021.

An Environmental Management System is a structured framework used by organisations to manage and reduce their impact on the environment.

It brings with it many benefits for a business, including:

- Reduced impact on the environment to maintain a healthy planet for future generations
- Legal compliance
- Reduced operational costs by improving efficiency
- Competitive advantage during a tender process

Promethean has had no health & safety related product recalls during the five years ended 31 December 2020.

During the four years ended 31 December 2020, Promethean has had no significant product failures. Any normal run rate failures are covered by Promethean's warranty offerings.

Promethean also monitors customer feedback and product related enquiries. Of the customer enquiries received over the course of the four years ending 31 December 2020, less than 1% of such enquiries result in a complaint.

As per the below table in 5 years Promethean had 476,485 inbound calls to the Contact Centre, 359 of these were complaints, as such only 0.08% were complaints.

| Year | Contacts into Support | Complaints received | % Complaints |
|---|---|---|---|
| 2016 | 91,615 | 41 | 0.04% |
| 2017 | 94,294 | 76 | 0.08% |
| 2018 | 99,818 | 111 | 0.11% |
| 2019 | 113,158 | 93 | 0.08% |
| 2020 | 77,600 | 38 | 0.05% |
| Total | 476,485 | 359 | 0.08% |

* Up to 31st December 2020

The complaints are dealt with on a case by case basis via feedback Customer Satisfaction surveys. These are dealt with by a dedicated team who record the feedback and in return contact the customers in order to best resolve the complaint.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*ClassFlow and Data Privacy*

ClassFlow is a service which collects personally identifiable information from teachers, parents and students. Since its initial release in 2014, Promethean has made significant efforts to comply with data privacy regulations around the world. Promethean has made significant efforts to ensure that it is particularly sensitive to its use of personally identifiable information belonging to students (children under the age of 18). To that end, Promethean has developed a privacy policy which is constantly updated with each new release of the Service and takes into consideration the ever-changing legal regulatory landscape on a global level. To date, there have been no incidents of security or data breaches related to the ClassFlow Service.

*Quality Assurance*

Promethean's global Product Quality objectives are working with our supplier/business partners to continually improve product/processes to ensure that very high standards, in terms of Quality, Cost and Delivery (QCD) performance, are achieved.

The overall responsibilities include ensuring that Quality Assurance principles are built into the supplier/business partners new product release and product life cycle processes; whilst also ensuring that they maintain ISO 9001 quality management and other relevant standards.

VI. Product Liability

Based on the standard of a computerised software test, the Group has performed strictly product inspection, including function test, weak network test, safety test, compatibility test, integration test and interface test, etc. and applied extensively automated testing technology to avoid and control, to the largest extent, risks of human factors to ensure the product functions and various indexes meet the quality standard. Moreover, for the purpose of a further guarantee for continuous improvement on product quality and on the quality of the production procedures, the Group has established an analysis mechanism for causes to defects and prevention measures for defects through big data management of BUG, along with regular technologies exchanges with corporates and universities, as well as continuous improvement and testing for related new tools and new methods.

The Group has taken the following measures to guarantee product quality:

1. Giving out daily journals on quality, demonstrating on a multidimensional scale the quality and progress of the latest version of the products, and coordination for issues addressing on a timely basis to avoid and control risks to the largest extent in order to ensure the progress of the products;

2. On the basis of the 7 x 24 cloud service of the automated testing technology, performing self-development of a tailored testing cloud platform to conduct various specific tests such as functions, compatibility, network and safety for the products for a comprehensive protection of quality;

3. Strict implementation of the procedures and standards related to quality control, including review of product demand, test activities such as management of test plans, management of test rules, management of test performance, management of feedback on risks and management of bug information;

4. Establishment of a quality monitoring and control system through online dial testing, by performing regular/triggered dial testing tasks automatically to discover production defects in a timely manner, instant monitoring and control of product quality can be guaranteed;

5. In accordance with the requirements under Cybersecurity Law of the People's Republic of China (網路安全法) and other relevant laws and regulations, the Group developed standards for security test and regulations or guidelines for testing in relation to five areas, namely protection of personal privacy on Apps, information security for users, real-name registration, content security and anti-addiction system of games, Moreover, the Group submitted testing reports on product conformity in a timely manner using self-developed security scanner and its online quality monitoring technology that is unique in the industry for the purpose of compliance. These measures supported the Company's products in complying with laws and regulations of the State.

VII. Anti-corruption

The Group has been directing the operation of the Company's departments in accordance with laws and regulations and has put in place a reporting mechanism, allowing the employees an access for ideas or suggestions feedback to the internal review department of the Company on an anonymous basis.

VIII. Community Contribution (Public Service Activities)

*Major Community Contribution Events of NetDragon in 2020*

The Group is committed to fulfilling corporate social responsibility in providing feedback to the community by maintaining long-term sustainability of our businesses and the communities in which we operate and actively engaging in community contribution activities.

| **2020** | **Major Community Contribution** |
|---|---|
| January | The Group entered into the memorandum of understanding with the Ministry of Education, Science and Technological Development of Serbia (塞爾維亞教育科技發展部) in relation to development and planning of intelligent education in Serbia. The Group will leverage its advantage in information technology for education to assist the Ministry of Education, Science and Technological Development of Serbia in developing the intelligent learning environment that includes software and hardware for education, value-added services and SaaS education service platform, with a view to achieve intelligent education, information exchanges and equal access to quality education for all. |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| | |
|---|---|
| February | 101beikao, the Group's online training platform with a focus on vocational tests, has been providing users with abundant paid-to-read training resources without charge. These resources cover tests for tour guide, accountants and civil servants as well as quality materials in various areas such as those of learning about tea culture. Amid the pandemic, 101beikao has been actively providing quality learning resources without charge to users in Hubei and other parts of China in supporting them to catch up with the progress during the pandemic before starting the tests.<br><br>Fujian Huayu and Pearson Education jointly developed the Longman Plus intelligent education solution to fully support students and pupils in Hong Kong in keeping learning when classes are suspended, in order to support their learning which was affected by the epidemic. The Longman Plus intelligent education solution is a comprehensive solution that covers pre-study, classroom learning, after-school homework and reviews for all subjects. It has brought interesting experience of collaborative classrooms to tens of thousands of teachers and students in Hong Kong.<br><br>To meet the needs of teachers and students for online education and learning, Chinese Language and Culture Education Foundation of China and Fujian Huayu worked together to promote the 3D e-books of Fujian Huayu and courses on its One-Stop Learning platform to teachers, parents and children. These courses will cover 60 million overseas Chinese, including 10 million young overseas Chinese, to support their online learning during the pandemic.<br><br>27 internet education technology platforms and companies, including Fujian Huayu, jointly launched the initiative of "Internet Education Technology Institutions Effectively Prevent and Control the Epidemic and Provide Effective Services to "suspending classes without stopping the school" as organised by National Engineering Laboratory for Cyberlearning and Intelligent Technology (互聯網教育智能技術及應用國家工程實驗室). In light of the impact of this public health emergency on education activities, Fujian Huayu has developed supporting plans for "suspending classes without stopping the school"at the onset and provide free access to its digital education products. It has also launched a huge volume of premium online education resources in providing supporting services of "Online Class" to teachers and students.<br><br>To meet the needs of schools for teaching and learning during the epidemic, Education Department of Shaanxi Provincial Government opens for free live streaming class service of "Shaanxi Education Cloud" jointly with Shaanxi Telecom for all the teachers in the province. Fujian Huayu assists "Shaanxi Education Cloud" to provide support for live service tools. providing safeguard service for teachers teaching at home.<br><br>To better provide online teaching service for all universities, vocational schools, after-school training institutions of vocational techniques across the nation during the pandemic, NetDragon Putian Education has opened for free 産創雲, an online education platform under NetDragon Putian Education, for the convenience of teaching and learning for teachers and students. |

To strengthen propaganda and guidance for the prevention and control of the pandemic and to carry out Party related tasks efficiently, H5 version of「黨務易通」of「中國好黨員」, a digitalised comprehensive service programme established by the Party, under Fujian Huayu has been launched and opened for free to all Party organisations at all level in the State, providing more convenient tools for Party duties and helping the Party organisations at lower level to adapt efficiently to Party duties.

Products and platforms, such as One-Stop Learning platform, 101 Education PPT, 馳聲聽説在綫 and Edmodo, of the Group has assisted extensively the teachers and students to resume class online in response to "continuous learning amid school suspension". One-Stop Learning platform is the first education platform and one of the education platforms that provides protection plans and announces free access to online live services, for "continuous learning amid school suspension" platform technical support for areas such as Hubei, Fujian, Hunan, Guangdong, Shandong, Henan and Heilongjiang, covering over 15,000,000 household users.

NetDragon launched spring recruitment programme and released more than 1,000 social recruitment positions. For the purpose of normal recruiting operation, NetDragon has made flexible adjustment to the form of recruitment, adopting "Cloud Recruitment" by means of video interview, online live and non-contact mode; and by means of online enrollment, online training and online execution of contract upon employment to ensure that employers are properly enrolled. To support the national "Six Stabilities" and "Six Guarantees" Policy, NetDragon has opened a green channel for the forthcoming graduates of Fujian origin by making available a direct port at its official website for the forthcoming graduates of Fujian origin to lodge their resume and has determined to open a large number of full-time positions for the forthcoming graduates of Fujian origin.

March

With the outbreak of the pandemic, schools in Hong Kong and some other places supported "continuous learning amid school suspension" of the government by showing initiatives of using Edmodo products to arrange class assignments and tasks. It can be downloaded for use through different channels, such as Google Drive and App Store, at where massive free educational resources are available.

Application of Edmodo has no geographical restriction. It can be downloaded through easy installation steps, whether by users in Hong Kong, Macau, Taiwan or overseas countries or regions, to experience the convenience of Internet + Education (互聯網+教育).

United Nations Education, Scientific and Cultural Organisation (UNESCO) advocates distant learning and has recommended a list of educational products for distant learning. Edmodo can support distant class management and ensure students' in-class participation and cooperation and has been officially recommended as one of the learning platforms for its extensive coverage of learning tools and resources.

The "Handbook on Facilitating Flexible Learning During Educational Disruption: The Chinese Experience in Maintaining Undisrupted Learning in COVID-19 Outbreak", accomplished by an academic team led by Huang Ronghuai, Co-Dean of Smart Learning Institute of Beijing Normal University, and Mr. Liu Dejian, the founder and Chairman of the Group and Co-Dean of Smart Learning Institute of Beijing Normal University was published on the official website of Institute for Information Technologies in Education of UNESCO (UNESCOIITE), and adopted the products technologies supporting "continuous learning amid school suspension" and actual cases of Internet Technology Enterprises, including NetDragon, and the researches and conclusions of the scholars of relevant institutes, demonstrating to the world about "Flexible Learning-The Chinese Experience".

Edmodo, has recently been chosen by the Ministry of Education in the Arab Republic of Egypt to be the designated distant learning platform for the K12 education system of the country, has been a rollout by the Ministry of Education of Egypt to over 22 million students and over 1 million teachers in the country to provide distance learning support in the period of school suspension, and will provide long term service for education after the pandemic in order to improve educational quality.

Future education has been further researched into in the intelligent classroom donated to Nigeria by NetDragon. Such classroom has been chosen by UNICEF and UNESCO as one of the model intelligent classrooms for conducting different subject courses such as mathematics, English and physics with advanced technology. The Group has integrated its quality teaching software and resources, such as 101 Virtual Laboratory and Coding Galaxy, with its hardware equipment, such as Promethean Interactive Whiteboard, to develop a general solution that ensure efficient class operation.

Six universities, namely, Tsinghua University, Shanghai Jiao Tong University, Nanjing University, Zhejiang University, Wuhan University and Xi'an Jiaotong University, jointly initiated "Chunlin" anti-epidemic and learning aid operation (hereinafter referred to as "Chunlin" Operation) to provide learning aid operation in three aspects, namely, academic enrichment, policy consultation and facilities support, for level 3 high school students in the implementation regions under the state projects. As a world renowned online education enterprise, NetDragon donated mobile phones and data expenses for some aided students to help them resolve the problem of connecting online.

April — The handbook of "Guidance on active learning at home during educational disruption: Promoting student's self-regulation skills during COVID-19 outbreak" was formally published, it was compiled jointly by the Smart Learning Institute of Beijing Normal University, the UNESCO Institute for Information Technologies in Education and UNESCO International Research and Training Center for Rural Education, with the support provided by the Arab League's Educational, Cultural and Scientific Organisation (ALECSO), the International Association of Smart Learning Environment (IASLE) and Edmodo, to help local and overseas students to enhance planning for learning and self-regulation capabilities, which also illustrated the practical action of NetDragon to accelerate innovation in future education.

The international online seminar with the theme of "Future education: How to ensure high quality education during the closure of higher education institutions" was convened. At the seminar, the core member representatives of the project team shared the handbook of "Guidance on flexible learning during campus closures: Ensuring course quality of higher education in COVID-19 outbreak" under research and compilation by the academic team lead by Mr. Liu Dejian, the founder and chairman of the Group and Co-Dean of the Smart Learning Institute of Beijing Normal University, and Mr. Huang Ronghuai, the Co-Dean of the Smart Learning Institute of Beijing Normal University, to help local and overseas higher education institutions to maintain basic teaching and learning during campus closure period, and to ensure the quality of courses through various innovative methods.

Fujian Huayu participated in the "Youth Artificial Intelligence Innovation Programme", the programme was initiated by Beijing Normal University and supported by NetDragon's quality learning resources-the course of 15 Questions on Artificial Intelligence to provide young learners with basic scientific knowledge on artificial intelligence and shared NetDragon's relevant cases and practical experience in the area of AI so that more young people will have the opportunities to explore and learn practical and forward-looking knowledge relating to AI, to follow the pace of era more closely and widen their vision and thinking.

The online examination system went online at "A Unified Platform for Learning". The system is able to organise examinations and ancillary online marking of examination papers for the education bureau of county government and schools, and may become the connection point between "A Unified Platform for Learning" and education administration authorities in different areas. At present, the platform is available for the examinations of all art and science subjects and foreign languages. The paper marking efficiency of teachers has increased by more than 60% when compared with manual marking, it also supports automated marking for open-end questions, it is more stable and more efficient than the original mode of filling answer cards.

May

The international seminar with the theme of "Advancing open educational practice in line with UNESCO OER recommendation during COVID-19 pandemic" was convened online. In the seminar, Mr. Liu Dejian, the founder and chairman of the Group and Co-Dean of Smart Learning Institute of Beijing Normal University, delivered a speech representing the project team and shared the "Guidance on open educational practices during school closure: utilising OER in COVID-19 pandemic in line with UNESCO OER recommendation" which was in the process of compilation, through introducing practical cases in different countries, it demonstrated how to use OER and OEP effectively to enhance the efficiency of teaching during the COVID-19 period.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The education department of Hubei province sent a thank you letter to Fujian Huayu and expressed gratitude to the Huayu team for its provision of diversified courses on the special "battlefield" of customised online teaching for teachers and students during the period of "class suspension but not learning suspension" under the COVID-19 pandemic to realise the sharing of quality resources which have provided important support and assurance for various learning channels during the COVID-19 period.

The ministry of education of Thailand announced that Edmodo and Galaxy programmers were selected for the provision of online learning platform and the programming of learning solutions for 10,000 schools at K-12 level, and trial operation has begun recently. It was revealed that the number of schools participating in the trial operation accounted for one quarter of the total number of schools at K-12 level in Thailand. If the project proceeded smoothly, this may be expanded to all schools at K-12 level in Thailand.

June

The Group and the World Cultural Heritage Yongding Earth Building Complex entered into cooperation, the gaming brands of Eudemons Online (魔域) IP, Heroes Evolved (英魂之刃) IP and Conquer Online (征服) IP would begin a formal interaction to empower cultural succession through digital technology by replicating the architectural features of Yongding Earth Building Complex in the game products, cooperated to customise the game method and jointly introduced an image ambassador to present the cultural beauty of Yongding Earth Building Complex before the eyes of global game players.

The education association of Shanxi province and the online team of "A Unified Platform for Learning" of Fujian Huayu entered into a cooperation agreement in Taiyuan to confirm that the team of "A Unified Platform for Learning" will fully support the construction and operation of the lifetime learning public service platform for teachers in Shanxi province. After completion, the platform will provide enhancement training for teachers and services for generalisation of information technology application in education for 4.4 million secondary and primary teachers and students across the province. The objective of the platform is to provide services for implementing reforms in the ordinary high-school curriculum, completing the research tasks of the teachers' code of conduct team to improve the information technology level and quality of training and research studies for teachers.

The senior level dialogue meeting of China-Africa-UNESCO during the COVID-19 pandemic period and post-pandemic priority support for Africa was convened by video conference. NetDragon initiated the "online education capabilities building plan for African teachers" at the meeting. The plan focused on the education sector, it will provide an online education platform for African countries and offer assistance to train 100,000 skeleton teachers in Africa.

| | |
|---|---|
| | The education department of the State of Vermont in USA entered into cooperative partnership with Edmodo to collaborate with all teaching staff in the State of Vermont to obtain teaching resources network for "class suspension but not learning suspension" in order to provide continuous teaching support for students in the State of Vermont. Due to the ease of utilisation and diverse functions of Edmodo, the education department of State Vermont selected Edmodo for promotional activities across the State of Vermont. |
| July | Fujian Huayu and Chinese Language and Culture Education Foundation of China (CLEF) entered into a cooperation agreement on teaching resources. Huayu will base on the Chinese language education course materials provided by CLEF and utilise technologies such as 3D, VR/AR and AI to design, research, develop and compile the "Chinese language smart textbooks" to promote upgrading in the overseas Chinese language teaching models, transmitting more digital education resources, extending coverage to tens of millions of ethnic Chinese students and teacher user groups in Chinese language schools around the world for driving further development in Chinese language education worldwide. |
| August | In order to further facilitate the improvement in education level in the African region and equal opportunities in global education, UNESCO and the Group entered into strategic partnership and convened an online meeting. Both parties took this opportunity of signing the memorandum of strategic cooperation to implement the "2030 Agenda for Sustainable Development" of United Nations by utilising their respective strengths to provide high quality and efficient education for African countries and contributing to promote equality and linkage in global education. |
| | The general office of the ministry of education issued the "Notice on completing the statistical work for the education industry in 2020" and the national education statistical information system phase II constructed by Fujian Huayu was formally used online help to drive the collection of statistical data for the national education industry into the era of online version. This is the first software product of Fujian Huayu that enters all schools across the nation, and this is also a key step for NetDragon to expand the user coverage and increase revenue from the SaaS model through the deployment of software. |
| September | I Wonder Why (十萬個為什麼) App, jointly published by Juvenile & Children's Publishing House and Fujian Huayu, has been launched in major Android application markets. With content core focuses on China's original popular science books excellent IP, I Wonder Why (十萬個為什麼), of Juvenile & Children's Publishing House, and technical core of Fujian Huayu's world leading educational technology, combined with the pressing need for knowledge in the era of Internet + Education (互聯網+教育), the App aims at providing K12 students with high-quality content of popular science and promote the development of youth education of popular science. |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| | |
|---|---|
| October | On the "Contract Signing Ceremony of Yunnan Diqing Educational Poverty Alleviation Donation" hosted by the Science and Technology Department of the Ministry of Education, Fujian Huayu donated NetEducation (district and county version), worth RMB2.8 million, to Diqing Tibetan Autonomous Prefecture in Yunnan Province. The Education and Sports Bureau of Diqing Tibetan Autonomous Prefecture plans to fulfill the coverage of teacher and student users of NetEducation in the entire jurisdiction by the end of 2020, helping Diqing Prefecture education to be alleviated from poverty. The donation by Fujian Huayu will enhance the informatisation level of education and deepen the reform on education and teaching to lay a good foundation for further development of local education. |
| | The "2020 Game Responsibility Forum" (2020遊戲責任論壇) hosted by people.cn was held in Beijing. At the Forum, which is themed as "Achieving Aspiration and Tasks, Embodying Responsibility" (踐行初心使命、體現責任擔當), the "Game Corporate Social Responsibility Report (2019-2020)" (2019-2020遊戲企業社會責任報告) was released. Capitalising on the outstanding contributions to economy, society and technology, the Group and the top 20 excellent enterprises, such as Tencent and NetEase, were shortlisted for the "2019-2020 China Game Corporate Social Responsibility Top 20" 2019-2020 (中國遊戲企業社會責任二十佳). |
| November | At the 2020 China's Best Employer Award Ceremony and China Human Capital International Management Forum, the "2020 China's Top 100 Employers of the Year" (2020中國年度最佳僱主百強) list was announced and NetDragon was awarded "The Most Intelligent Employer" (2020最具智造精神僱主). According to some investigation and survey, the "top 100 employers" received the highest employee satisfaction in respect of working environment and employer's culture, which soft strength fosters the employee with stronger sense of belonging and valuable experience, transforming into greater working passion to generate return for enterprises. |
| | Strategic Cooperation Agreement was entered into in Beijing by Fujian Huayu, China World Peace Foundation and Fujian Buddhist Charity Association. The three parties will establish in future Buddhist Harmony Culture Charity Foundation (佛教圓融文化公益基金) to advocate dharma education to the countries along the Belt and Road, and to commence in-depth cooperation leveraging on internet technology to integrate quality educational resources and to exploit Buddhist Harmony Culture Charity Foundation to serve the society. |
| | Edmodo has been elected by the Education Department of Ghana as the only online learning platform for K12 education system of that country. In this cooperation, Edmodo, the world leading online learning community, is expected to access over 30,000 public and private schools in Ghana, covering 9.3 million students and 450,000 teachers of the country. It signifies another milestone that the Group has achieved for countries along the Belt and Road in providing educational technological solutions and demonstrates again the Group's determination in promoting global education equality. |

Fujian Huayu won the bid for the public artificial intelligence education service platform project for secondary and primary schools in Henan Province. This means that Fujian Huayu will help intensively with the integration of artificial intelligence and basic education in Henan Province and establish an ecological system of artificial intelligence education for secondary and primary schools in Henan Province. The core of the platform construction is the integration of education informatisation and artificial intelligence education, which will gradually coordinate educational informatisation of the entire province, gather educational big data to assist in making education decision and serve 17 million teachers and students in Henan Province by several launches.

The public service platform for pre-school education in Guyuan, Ningxia, jointly established by the Education and Sports Bureau of Ningxia Guyuan City and Fujian NetDragon Network Company, was officially launched. The platform will radiate 430 kindergartens in the area and fully contribute to the informatisation upgrade of preschool education in Guyuan.

The Western Wisdom Education Application Innovation Seminar and the Summary Meeting of the Linxia Hui Autonomous Prefecture Project of Counterpart Support of Shaanxi Normal University was held in Linxia Prefecture. At the meeting, Fujian Huayu donated jointly with National Center for Educational Technology 6 sets of central hall virtual experimental teaching service system for Linxia Hui Autonomous Prefecture to help 6 schools in Linxia Prefecture to carry out subject teaching experiment and study.

December

The Shaanxi Education Informatisation 2.0 platform, which is technically supported by Fujian Huayu, was officially launched. It is an implementation plan for education informatisation 2.0 of Shaanxi Province and an important measure for the reconstruction of a "Internet+Education" (互聯網+教育) new era with new ecology and education system.

Fujian Huayu participated in the "Rural Teacher Encouragement Programme" (鄉村教師勵耘計劃) initiated by Beijing Normal University, the first batch of programme will radiate Liangshan Prefecture in Sichuan, Linzhi City in Tibet, Yulong County in Yunnan, Congjiang County in Guizhou, Qinglong County in Hebei, Tunchang County in Hainan and other regions, enhance the quality of local teachers in villages, effectively deploy resources for services and functions of colleges and universities, technology advantages of enterprises and public welfare funding support, etc., to assist the development of teachers in villages and promote continuous improvement of rural education, contributing to the revitalisation of rural education.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The "Beijing Teachers Excellent Class" (京師優課) platform jointly created by Fujian Huayu and Beijing Normal University Education Group was officially released, which will cover 13,000 teachers in more than 80 affiliated schools of Beijing Normal University Education Group in the early stage. The "Beijing Teacher Excellent Course" (京師優課) platform will provide integrated intelligent education service for the joint development and sharing of resources between Beijing Normal University Education Group and the affiliated schools, as well as for the implementation and management of the online courses of those schools.

The ceremony for the broadcasting of "Fulfill the Dream (圓夢向未來)", a large educational programme on poverty alleviation and charity jointly launched by Fujian Media Group and NetDragon and produced by the Children's Channel of Fujian Media Group, was held. The programme focuses on "education and poverty alleviation" (教育扶貧), sharing quality content such as micro-classes lectured by star teachers, interpretation of policies and learning experiences, from which students in areas where education is under-developed can enjoy quality education resources in a more convenient way, and shortcomings of impeded information flows and insufficient interpretation of information in villages and towns can be covered.

The 2020 Social Responsibility Forum of China Internet Enterprises (Seventh Session) hosted by Internet Society of China was held in Beijing. NetDragon was awarded with "2018-2020 China Internet Industry Welfare" (2018-2020年度中國互聯網行業公益獎) due to the recognition and acceptance received from the industry in connection with its strong social responsibility and various active anti-epidemic and learning aid measures.

Standing committee meeting of China Education Federation of the Arts (中國藝術職業教育學會) (CEFA) was held in the Digital Education Town, at which cooperation has been formally established between the Group, Digital Education Town and CEFA, to establish jointly the Technology Research Centre of Arts and Design Professional Committee of CEFA (中國藝術職業教育學會美術與設計專業委員會技術研發中心), which is a national academic organisation demonstrating prominence in facilitating inheritance of good traditional culture and development.

Strategic cooperation was entered into between Fujian Huayu and Xi'an Wisdom Garden (西安智園), who will jointly develop a wisdom educational solution for hardware integration, which would be promoted through channels of colleges and universities with the "Resource+Platform (資源+平台)" mode, to empower informatisation development of domestic higher education and to facilitate and achieve education equality.

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 111 to 294, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT

**TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED (Cont'd)**

## KEY AUDIT MATTERS (Cont'd)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Recognition of revenue and contract liabilities from online and mobile games involving discounts given to distributors* | |
| We identified the recognition of revenue and contract liabilities from online and mobile games involving discounts given to distributors as a key audit matter due to the involvement of significant management estimates.<br><br>Online and mobile games revenue of approximately RMB3,432,666,000 for the year ended 31 December 2020 was recognised after the actual usage of the game points in the online and mobile games by the customers for obtaining virtual products or premium features. Advance received in respect of unutilised game points and those arising from inactivated pre-paid game cards is recognised as contract liabilities.<br><br>The Group currently has different distribution and payment channels, including direct sales (by online payment systems and other direct sales channels) and pre-paid card sales through distributors. Online and mobile games income received is net of discounts given to certain distributors. As to the amount of contract liabilities of RMB14,412,000 as at 31 December 2020 in respect of unutilised game points relating to the sales through distributors, management's estimation is required in determining the estimated average sales value of these unutilised game points as discounts given are different for different distributors.<br><br>In assessing the amount of estimated average sales value for the unutilised game points, management considers the discount rate applicable to each of the distributor and the income received via different distributors. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at the end of the reporting period. The estimated average sales value of each game point is then determined by factoring the average discount rate to the monetary value of the game point. If the actual sales value of the unutilised game points differs from management's estimates, the amount of contract liabilities as well as online and mobile games revenue would be affected.<br><br>The key estimates involved are described in Note 4 to the consolidated financial statements. | Our procedures in relation to the recognition of revenue and contract liabilities from online and mobile games involving discounts given to distributors included:<br><br>• evaluating both the manual and automated controls over the revenue recognition process in respect of online and mobile games revenue;<br><br>• evaluating the reasonableness of the average discount rate of the unutilised game points adopted by the management by performing recalculation with reference to monetary value of game points recharged and discounts offered to distributors;<br><br>• obtaining calculation of online and mobile games revenue and performing recalculation of the revenue with reference to game points utilised by customers and estimated average sales value for each game point during the year using computer-assisted audit techniques;<br><br>• performing recalculation of the corresponding contract liabilities with reference to the unutilised game points and average sales value for each game point; and<br><br>• obtaining the report which contains the unutilised game points generated by the computer system and performing testing, on a sample basis, by computer-assisted audit techniques. |

**TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED (Cont'd)**

## KEY AUDIT MATTERS (Cont'd)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of goodwill and intangible assets with indefinite useful lives* | |
| We identified the impairment of goodwill and intangible assets with indefinite useful lives arising from historical acquisitions as a key audit matter due to the use of management's estimation of the value in use of the cash-generating units to which goodwill and intangible assets with indefinite useful lives are allocated, in the course of management's impairment assessment.<br><br>In management's impairment assessment, it requires the estimation of the recoverable amount of the cash-generating units to which goodwill and intangible assets with indefinite useful lives have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to identify cash-generating units, estimate growth rates in cash flow forecasts and suitable discount rate applied to these forecasts in order to calculate the present value.<br><br>The carrying amounts of goodwill and intangible assets with indefinite useful lives were RMB241,332,000 and RMB234,871,000 respectively as at 31 December 2020. Details of goodwill and intangible assets with indefinite useful lives and the impairment testing on goodwill and intangible assets with indefinite useful lives are disclosed in Notes 22, 16 and 23 to the consolidated financial statements respectively. | Our procedures in relation to the impairment of goodwill and intangible assets with indefinite useful lives included:<br><br>• obtaining approved cash flow forecasts from management, and assessing the reasonableness of the assumptions and methodologies used by management in their impairment assessment by comparing the cash flow forecasts, growth rates and discount rate used in these forecasts to the future business plan, market data and industry benchmarks;<br><br>• evaluating the accuracy of management's forecasts by comparing previous forecasts with historical results; and<br><br>• evaluating the sensitivity analysis of the forecasts for reasonably possible change in any of the assumptions made. |

# INDEPENDENT AUDITOR'S REPORT

**TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED (Cont'd)**

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED (Cont'd)**

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# INDEPENDENT AUDITOR'S REPORT

**TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED (Cont'd)**

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lee Ka Kei.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
25 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

| | NOTES | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Revenue | 5 | **6,137,640** | 5,793,075 |
| Cost of revenue | | **(1,966,376)** | (1,937,823) |
| Gross profit | | **4,171,264** | 3,855,252 |
| Other income and gains | 5 | **230,884** | 139,568 |
| Impairment loss under expected credit loss model, net of reversal | 7 | **1,607** | (26,491) |
| Selling and marketing expenses | | **(893,513)** | (915,754) |
| Administrative expenses | | **(903,111)** | (883,083) |
| Development costs | | **(1,175,928)** | (1,075,400) |
| Other expenses and losses | 5 | **(326,817)** | (307,820) |
| Share of losses of associates | | **(15,080)** | (4,936) |
| Share of losses of joint ventures | | **(1,783)** | (3,370) |
| Operating profit | | **1,087,523** | 777,966 |
| Interest income on pledged bank deposits | | **3,263** | 3,181 |
| Exchange gain (loss) on financial assets at fair value through profit or loss, bank borrowings, convertible preferred shares, convertible and exchangeable bonds and derivative financial instruments | | **45,302** | (1,052) |
| Fair value change on convertible preferred shares | 39 | **–** | 110,697 |
| Fair value change on financial assets at fair value through profit or loss | | **51,733** | 219 |
| Fair value change on derivative financial instruments | | **43,323** | – |
| Finance costs | 6 | **(157,680)** | (24,742) |
| Profit before taxation | | **1,073,464** | 866,269 |
| Taxation | 9 | **(217,644)** | (163,214) |
| Profit for the year | 10 | **855,820** | 703,055 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

| | NOTE | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Other comprehensive (expense) income for the year, net of income tax: | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(11,568)** | 5,517 |
| Item that will not be reclassified to profit or loss: | | | |
| Fair value gain on equity instruments at fair value through other comprehensive income | | **6,042** | 878 |
| Other comprehensive (expense) income for the year | | **(5,526)** | 6,395 |
| Total comprehensive income for the year | | **850,294** | 709,450 |
| Profit (loss) for the year attributable to: | | | |
| – Owners of the Company | | **953,501** | 807,212 |
| – Non-controlling interests | | **(97,681)** | (104,157) |
| | | **855,820** | 703,055 |
| Total comprehensive income (expense) for the year attributable to: | | | |
| – Owners of the Company | | **944,235** | 813,456 |
| – Non-controlling interests | | **(93,941)** | (104,006) |
| | | **850,294** | 709,450 |
| | | **RMB cents** | RMB cents |
| **Earnings per share** | 13 | | |
| – Basic | | **171.19** | 152.68 |
| – Diluted | | **170.96** | 152.17 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **1,992,708** | 1,918,697 |
| Right-of-use assets | 19 | **455,011** | 467,250 |
| Investment properties | 15 | **76,529** | 95,090 |
| Intangible assets | 16 | **625,771** | 675,737 |
| Interests in associates | 17 | **49,659** | 54,655 |
| Interests in joint ventures | 18 | **16,563** | 12,346 |
| Equity instruments at fair value through other comprehensive income | 20 | **10,808** | 4,514 |
| Financial assets at fair value through profit or loss | 32 | **281,194** | – |
| Loan receivables | 21 | **10,421** | 9,573 |
| Other receivables, prepayments and deposits | 28 | **62,841** | 57,829 |
| Deposits made for acquisition of property, plant and equipment | | **3,630** | 11,486 |
| Goodwill | 22 | **241,332** | 313,328 |
| Deferred tax assets | 24 | **43,437** | 47,317 |
| | | **3,869,904** | 3,667,822 |
| **Current assets** | | | |
| Properties under development | 26 | **263,915** | 469,070 |
| Properties for sale | 26 | **253,367** | 20,640 |
| Inventories | 27 | **316,909** | 237,478 |
| Loan receivables | 21 | **22,042** | 27,354 |
| Trade receivables | 25 | **525,353** | 689,360 |
| Other receivables, prepayments and deposits | 28 | **399,537** | 328,369 |
| Contract assets | 29 | **12,236** | 18,333 |
| Amount due from a related company | 30 | **47** | 849 |
| Amounts due from associates | 31 | **–** | 2,262 |
| Amounts due from joint ventures | 31 | **974** | 279 |
| Amount due from a director | 31 | **–** | 400 |
| Tax recoverable | | **14,035** | 6,689 |
| Financial assets at fair value through profit or loss | 32 | **5,781** | 1,492 |
| Restricted bank balances | 33 | **15,611** | 15,089 |
| Pledged bank deposits | 33 | **146,073** | 145,787 |
| Bank deposit with original maturity over three months | 33 | **33,021** | – |
| Bank balances and cash | 33 | **4,114,410** | 2,125,637 |
| | | **6,123,311** | 4,089,088 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 35 | **1,091,369** | 980,522 |
| Contract liabilities | 36 | **405,483** | 529,497 |
| Lease liabilities | 34 | **56,224** | 54,603 |
| Provisions | 37 | **71,501** | 69,867 |
| Derivative financial instruments | 32 | **40,894** | – |
| Amount due to a related company | 38 | **–** | 105 |
| Amounts due to associates | 38 | **3,484** | 257 |
| Amount due to a joint venture | 38 | **593** | – |
| Convertible and exchangeable bonds | 40 | **15,351** | – |
| Bank borrowings | 41 | **154,597** | 161,135 |
| Dividend payable to non-controlling interests | | **99** | – |
| Tax payable | | **121,083** | 107,120 |
| | | **1,960,678** | 1,903,106 |
| **Net current assets** | | **4,162,633** | 2,185,982 |
| **Total assets less current liabilities** | | **8,032,537** | 5,853,804 |
| **Non-current liabilities** | | | |
| Other payables | 35 | **5,409** | 16,275 |
| Convertible preferred shares | 39 | **–** | – |
| Convertible and exchangeable bonds | 40 | **976,765** | – |
| Bank borrowings | 41 | **191,073** | 246,068 |
| Lease liabilities | 34 | **116,453** | 108,803 |
| Deferred tax liabilities | 24 | **90,907** | 121,610 |
| | | **1,380,607** | 492,756 |
| **Net assets** | | **6,651,930** | 5,361,048 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

| | NOTE | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 42 | 40,951 | 38,822 |
| Share premium and reserves | | 6,766,393 | 5,557,499 |
| Equity attributable to owners of the Company | | 6,807,344 | 5,596,321 |
| Non-controlling interests | | (155,414) | (235,273) |
| | | 6,651,930 | 5,361,048 |

The consolidated financial statements on pages 111 to 294 were approved and authorised for issue by the Board of Directors on 25 March 2021 and are signed on its behalf by:

| | |
|---|---|
| **Zheng Hui** | **Leung Lim Kin, Simon** |
| DIRECTOR | DIRECTOR |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

| | Attributable to owners of the Company | | | | | | | | | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Other reserve | Capital reserve | Statutory reserves | Dividend reserve | Property revaluation reserve | Treasury share reserve | Employee share-based compensation reserve | Translation reserve | Equity instruments at fair value through other comprehensive income reserve | Retained profits | Sub-total | | |
| | RMB'000 | RMB'000 | RMB'000 (Note a) | RMB'000 (Note b) | RMB'000 (Note c) | RMB'000 (Note d) | RMB'000 | RMB'000 | RMB'000 (Note e) | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2019 | 38,863 | 1,568,632 | 6,595 | 23,673 | 10,035 | 405,787 | 69,809 | 22,449 | (33,182) | 28,291 | (106,801) | (8,340) | 2,893,308 | 4,919,119 | (134,826) | 4,784,293 |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | - | - | - | - | 807,212 | 807,212 | (104,157) | 703,055 |
| Other comprehensive income for the year | - | - | - | - | - | - | - | - | - | - | 5,608 | 636 | - | 6,244 | 151 | 6,395 |
| Total comprehensive income (expense) for the year | - | - | - | - | - | - | - | - | - | - | 5,608 | 636 | 807,212 | 813,456 | (104,006) | 709,450 |
| Repurchase and cancellation of shares | (57) | (8,745) | 57 | - | - | - | - | - | - | - | - | - | (57) | (8,802) | - | (8,802) |
| Shares issued upon exercise of share options | 16 | 5,976 | - | - | - | - | - | - | - | (1,871) | - | - | - | 4,121 | - | 4,121 |
| Contribution from non-controlling interests of subsidiaries | - | - | - | (496) | - | - | - | - | - | - | - | - | - | (496) | 3,476 | 2,980 |
| Recognition of share awards granted by a subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 138 | 138 |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | - | - | - | 11,409 | - | - | - | 11,409 | - | 11,409 |
| Awarded shares vested to employees | - | - | - | - | - | - | - | - | 7,341 | (8,796) | - | - | 1,455 | - | - | - |
| Deemed disposal of subsidiaries to non-controlling shareholders | - | - | - | 188 | - | - | - | - | - | - | - | - | - | 188 | (188) | - |
| Disposal of a non-wholly owned subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (745) | (745) |
| Acquisition of additional equity interests from non-controlling interests (Note b) | - | - | - | (2,867) | - | - | - | - | - | - | - | - | - | (2,867) | 878 | (1,989) |
| Disposal of a subsidiary | - | - | - | - | - | (38) | - | - | - | - | - | - | 38 | - | - | - |
| Final dividend for 2018 paid | - | - | - | - | - | - | (69,809) | - | - | - | - | - | - | (69,809) | - | (69,809) |
| Interim dividend for 2019 declared and paid | - | - | - | - | - | - | - | - | - | - | - | - | (69,998) | (69,998) | - | (69,998) |
| Final dividend for 2019 proposed | - | - | - | - | - | - | 118,824 | - | - | - | - | - | (118,824) | - | - | - |
| Transfers | - | - | - | - | - | 46,454 | - | - | - | - | - | - | (46,454) | - | - | - |
| At 31 December 2019 | 38,822 | 1,565,863 | 6,652 | 20,498 | 10,035 | 452,203 | 118,824 | 22,449 | (25,841) | 29,033 | (101,193) | (7,704) | 3,466,680 | 5,596,321 | (235,273) | 5,361,048 |
| **At 1 January 2020** | **38,822** | **1,565,863** | **6,652** | **20,498** | **10,035** | **452,203** | **118,824** | **22,449** | **(25,841)** | **29,033** | **(101,193)** | **(7,704)** | **3,466,680** | **5,596,321** | **(235,273)** | **5,361,048** |
| Profit (loss) for the year | - | - | - | - | - | - | - | - | - | - | - | - | **953,501** | **953,501** | **(97,681)** | **855,820** |
| Other comprehensive (expense) income for the year | - | - | - | - | - | - | - | - | - | - | **(13,589)** | **4,323** | - | **(9,266)** | **3,740** | **(5,526)** |
| Total comprehensive (expense) income for the year | - | - | - | - | - | - | - | - | - | - | **(13,589)** | **4,323** | **953,501** | **944,235** | **(93,941)** | **850,294** |
| Issue of new shares | **2,318** | **694,309** | - | - | - | - | - | - | - | - | - | - | - | **696,627** | - | **696,627** |
| Repurchase and cancellation of shares | **(213)** | **(43,095)** | **213** | - | - | - | - | - | - | - | - | - | **(213)** | **(43,308)** | - | **(43,308)** |
| Shares issued upon exercise of share options | **24** | **2,665** | - | - | - | - | - | - | - | **(665)** | - | - | - | **2,024** | - | **2,024** |
| Recognition of share awards granted by a subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **82** | **82** |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | - | - | - | **35,109** | - | - | - | **35,109** | - | **35,109** |
| Awarded shares forfeited | - | - | - | - | - | - | - | - | - | **(3,066)** | - | - | - | **(3,066)** | - | **(3,066)** |
| Awarded shares vested to employees | - | - | - | - | - | - | - | - | **6,706** | **(7,580)** | - | - | **874** | - | - | - |
| Contribution from non-controlling interests of subsidiaries | - | - | - | **(288)** | - | - | - | - | - | - | - | - | - | **(288)** | **2,288** | **2,000** |
| Acquisition of additional equity interests through conversion of convertible bonds of a subsidiary | - | - | - | **(174,421)** | - | - | - | - | - | - | - | - | - | **(174,421)** | **174,421** | - |
| Acquisition of additional equity interests from non-controlling shareholders | - | - | - | **(1,349)** | - | - | - | - | - | - | - | - | - | **(1,349)** | **(5,118)** | **(6,467)** |
| Acquisition of subsidiaries (Note 44) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **6,250** | **6,250** |
| Acquisition of assets through acquisition of a subsidiary (Note 45) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **6,506** | **6,506** |
| Deemed disposal of subsidiaries to non-controlling shareholders (Note f) | - | - | - | **10,530** | - | - | - | - | - | - | - | - | - | **10,530** | **(10,530)** | - |
| Final dividend for 2019 declared | - | - | - | - | - | - | **(118,824)** | - | - | - | - | - | **(7,466)** | **(126,290)** | - | **(126,290)** |
| Interim dividend for 2020 declared and paid | - | - | - | - | - | - | - | - | - | - | - | - | **(128,780)** | **(128,780)** | - | **(128,780)** |
| Dividend payable to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **(99)** | **(99)** |
| Final dividend for 2020 proposed | - | - | - | - | - | - | **118,044** | - | - | - | - | - | **(118,044)** | - | - | - |
| Transfers | - | - | - | - | - | **29,380** | - | - | - | - | - | - | **(29,380)** | - | - | - |
| At 31 December 2020 | **40,951** | **2,219,742** | **6,865** | **(145,030)** | **10,035** | **481,583** | **118,044** | **22,449** | **(19,135)** | **52,831** | **(114,782)** | **(3,381)** | **4,137,172** | **6,807,344** | **(155,414)** | **6,651,930** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

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 the companies of 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) ("NetDragon (Fujian)") 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.

f. During the year ended 31 December 2020, there were gains on deemed disposal arising from (i) vesting of 200,000 ordinary shares of Best Assistant Education Online Limited ("Best Assistant") to the non-controlling shareholders and (ii) the issue of 10,810,741 ordinary shares of Best Assistant for acquisition of additional 45% equity interest in 101 Education Technology Co., Ltd. ("101 Cayman") which was previously known as an associate of the Group which was detailed in Note 44 to the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit for the year | **855,820** | 703,055 |
| Adjustments for: | | |
| Taxation | **217,644** | 163,214 |
| Finance costs | **157,680** | 24,742 |
| Depreciation of property, plant and equipment | **196,340** | 180,279 |
| Depreciation of right-of-use assets | **84,951** | 79,933 |
| Amortisation of intangible assets | **109,046** | 93,986 |
| Impairment of goodwill | **75,226** | 83,076 |
| Impairment of intangible assets | **52,687** | 137,999 |
| Impairment loss under expected credit loss model, net of reversal | **(1,607)** | 26,491 |
| Write-down of inventories | **631** | – |
| Net (gain) loss on disposal of property, plant and equipment | **(11)** | 4,472 |
| Loss on disposal of subsidiaries | **–** | 619 |
| Fair value change on convertible preferred shares | **–** | (110,697) |
| Fair value change on financial assets at fair value through profit or loss | **(51,733)** | (219) |
| Fair value change on derivative financial instruments | **(43,323)** | – |
| Fair value loss (gain) upon transfer from properties for sale to investment properties | **145** | (7,545) |
| Loss on fair value change in investment properties | **14,714** | 2,464 |
| Interest income on bank balances, loan receivables, trade receivables, refundable rental deposits and pledged bank deposits | **(35,327)** | (20,588) |
| Share-based payments | **32,125** | 11,547 |
| Share of losses of associates | **15,080** | 4,936 |
| Share of losses of joint ventures | **1,783** | 3,370 |
| Bargain purchase gain arising from acquisition of subsidiaries | **(6,524)** | – |
| Operating cash flows before movements in working capital | **1,675,347** | 1,381,134 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| (Increase) decrease in inventories | **(76,441)** | 29,942 |
| Decrease (increase) in trade receivables | **165,462** | (265,670) |
| Decrease in contract assets | **6,097** | 13,831 |
| Increase in other receivables, prepayments and deposits | **(27,801)** | (56,897) |
| (Increase) decrease in properties under development | **(56,193)** | 36,093 |
| Decrease in properties for sale | **28,476** | – |
| Increase in trade and other payables | **59,057** | 118,687 |
| (Decrease) increase in contract liabilities | **(124,014)** | 117,104 |
| Increase in provisions | **4,471** | 10,619 |
| Decrease in amount due to a related company | **(105)** | (865) |
| Increase (decrease) in amounts due to associates | **3,227** | (463) |
| Increase in amount due to a joint venture | **593** | – |
| Cash generated from operations | **1,658,176** | 1,383,515 |
| Interest paid | **(101,328)** | (23,755) |
| Income tax paid | **(227,197)** | (183,956) |
| **NET CASH FROM OPERATING ACTIVITIES** | **1,329,651** | 1,175,804 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(253,747)** | (359,344) |
| Placement of bank deposits with original maturity over three months | | **(35,214)** | – |
| Acquisitions of subsidiaries | 44 | **7,385** | – |
| Acquisition of assets through acquisition of a subsidiary | 45 | **(43,000)** | – |
| Purchase of intangible assets | | **(63,589)** | (77,167) |
| Advance of loan receivables | | **–** | (12,000) |
| Deposits made for acquisition of property, plant and equipment | | **(3,065)** | (10,927) |
| Investment in an associate | | **(20,000)** | (36,000) |
| Investment in a joint venture | | **(6,000)** | – |
| Payments for rental deposits | | **–** | (432) |
| Repayment from (advance to) associates | | **2,262** | (157) |
| (Advance to) repayment from a joint venture | | **(695)** | 472 |
| Repayment from (advance to) a related company | | **802** | (716) |
| Repayment from a director | | **400** | – |
| Placement of restricted bank balance | | **(2,000)** | – |
| Placement of pledged bank deposits | | **(340)** | (145,168) |
| Withdrawal of bank deposits with original maturity over three months | | **–** | 67,112 |
| Interest received | | **32,030** | 18,367 |
| Repayment of loan receivables | | **3,693** | 4,253 |
| Withdrawal of restricted bank balance | | **1,478** | – |
| Proceeds from disposal of property, plant and equipment | | **1,014** | 1,600 |
| Withdrawal of pledged bank deposits | | **–** | 155,883 |
| Cash outflow from disposal of subsidiaries | 46 | **–** | (2,431) |
| Purchase of financial assets at fair value through profit or loss | | **(258,970)** | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **5,600** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(631,956)** | (396,655) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 1. GENERAL INFORMATION

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

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

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

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

In addition, the Group has early applied the Amendment to HKFRS 16 *Covid-19 Related Rent Concession*.

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

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

Amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

### *2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

### *2.2 Impacts on application of Amendments to HKFRS 3 Definition of a Business*

The Group has applied the amendments to HKFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

Amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

### *2.3 Impact of the early application of Amendments to HKFRS 16 Covid-19-Related Rent Concessions*

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group has early applied the amendment in the current year. The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB248,000 in the profit or loss for the current year.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

Amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

### *2.4 Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;

- Hedge accounting requirements. Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the Group manages those risks as well as the Group's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the Group is managing this transition.

As at 31 December 2020, the Group has several London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") bank loans which may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and Amendments to HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and Amendments to HKFRSs in issue but not yet effective (Cont'd)

*Amendments to HKFRS 3 Reference to the Conceptual Framework*

The amendments:

- update a reference in HKFRS 3 *Business Combinations* ("HKFRS 3") so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

*Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020*

The annual improvements make amendments to the following standards.

*HKFRS 9 Financial Instruments*

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

*HKFRS 16 Leases*

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and Amendments to HKFRSs in issue but not yet effective (Cont'd)

*Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020 (Cont'd)*

*HKAS 41 Agriculture*

The amendment ensures consistency with the requirements in HKFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

*Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and Amendments to HKFRSs in issue but not yet effective (Cont'd)

*Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (Cont'd)*

*Impacts on certain liabilities – Borrowings which are subject to covenants within 12 months from reporting date*

As at 31 December 2020, the Group's right to defer settlement for borrowings of RMB35,206,000 are subject to compliance with covenants within 12 months from the reporting date. Such borrowings were classified as non-current as the Group met such covenants at 31 December 2020. Pending clarification on the application of relevant requirements of the amendments, the Group will further assess whether application of the amendments will have an impact on the classification of these borrowings. The impacts on application, if any, will be disclosed in the Group's future consolidated financial statements.

Except for as disclosed above, the application of the amendments will not result in reclassification of the Group's other liabilities as at 31 December 2020.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation of consolidated financial statements

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.1 Basis of preparation of consolidated financial statements (Cont'd)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets* ("HKAS 36").

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies

*Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income ("OCI") are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Changes in the Group's interests in existing subsidiaries*

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* ("HKFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Business combinations or asset acquisitions*

*Optional concentration test*

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

*Asset acquisitions*

When the Group acquires a group of assets that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

*Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.2 Significant accounting policies (Cont'd)

*Business combinations or asset acquisitions (Cont'd)*

*Business combinations (Cont'd)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16 *Leases*) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Business combinations or asset acquisitions (Cont'd)*

*Business combinations (Cont'd)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or OCI, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in OCI and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had directly disposed of the previously held equity interest. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of CGUs). On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Investments in associates and joint ventures*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and OCI of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Investments in associates and joint ventures (Cont'd)*

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in OCI in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in OCI by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in OCI relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Revenue from contracts with customers*

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Revenue from contracts with customers (Cont'd)*

*Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation*

Output method

The progress towards complete satisfaction of a performance obligation on revenue from provision of mobile solution, products and marketing business services is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Input method

The progress towards complete satisfaction of a performance obligation on the revenue from educational services is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

*Variable consideration*

For contracts that contain variable consideration whereby the Group will actually transfer cash or credit note to a distributor when a rebate has been achieved, the Group estimates the amount of consideration to which it will be entitled using the most likely amount, and using the method that best predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and changes in circumstances during the reporting period.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Revenue from contracts with customers (Cont'd)*

*Existence of significant financing component*

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money, if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

*Warranties*

If a customer has the option to purchase an extended warranty separately, the Group accounts for the extended warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase an extended warranty separately, the Group accounts for the basic warranty in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Leases*

*Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*The Group as a lessee*

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Leases (Cont'd)*

*The Group as a lessee (Cont'd)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property, properties under development and properties for sale as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of inventory are presented within "properties under development" and "properties for sale".

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Leases (Cont'd)*

*The Group as a lessee (Cont'd)*

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Leases (Cont'd)*

*The Group as a lessee (Cont'd)*

Lease liabilities (Cont'd)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item in the consolidated statement of financial position.

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Leases (Cont'd)*

*The Group as a lessee (Cont'd)*

Lease modifications (Cont'd)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Leases (Cont'd)*

*The Group as a lessor*

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income which are derived from the Group's ordinary course of business are presented as other income.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as other payables in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income and gains".

*Property, plant and equipment*

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Property, plant and equipment (Cont'd)*

*Ownership interests in leasehold land and building*

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land classified as right-of-use assets) at the date of transfer is recognised in OCI and accumulated in property revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. For properties under development for which revenue is recognised over time, the Group ceases to capitalise borrowing costs as soon as the properties are ready for the Group's intended sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

*Investment properties*

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

The Group transfers a property from properties under development to investment properties when there is a change in use to hold the property to earn rentals and/or for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the inception of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognised in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Intangible assets*

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill*

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs.

In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Properties under development/properties for sale*

Properties under development which are intended to be sold upon completion of development and properties for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets, properties under development/properties for sale are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development are transferred to properties for sale upon completion.

*Transfer from inventories to investment properties carried at fair value*

The Group transfers a property from inventories to investment property when there is a change in use to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the inception of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognised in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Foreign currencies*

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in OCI and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in OCI.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments*

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets*

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity instrument in OCI if that equity instrument is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies.

In addition, the Group may irrecoverably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets (Cont'd)*

Classification and subsequent measurement of financial assets (Cont'd)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the equity instruments at FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity instruments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and gains" line item in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets (Cont'd)*

Classification and subsequent measurement of financial assets (Cont'd)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and gains" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including loan receivables, trade receivables, other receivables, refundable rental deposits, amount due from a related company, amounts due from associates, amounts due from joint ventures, amount due from a director, restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances), and other item (contract assets) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for credit-impaired debtors and/or collectively using a provision matrix with appropriate groupings.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets (Cont'd)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Cont'd)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets (Cont'd)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Cont'd)

(i) Significant increase in credit risk (Cont'd)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets (Cont'd)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Cont'd)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

# 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

## 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets (Cont'd)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Cont'd)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the basis of (i) nature of financial instruments and (ii) past-due status. The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial assets (Cont'd)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained profits.

*Financial liabilities and equity instruments*

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial liabilities and equity instruments (Cont'd)*

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of as acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible preferred shares and convertible and exchangeable bonds, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in OCI. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Financial liabilities and equity instruments (Cont'd)*

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a related company, amounts due to associates, amount due to a joint venture and bank borrowings are subsequently measured at amortised cost using the effective interest method.

Convertible preferred shares

The Group designated the convertible preferred shares as financial liabilities at FVTPL as they are contracts containing one or more embedded derivatives. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in the consolidated statement of profit or loss and other comprehensive income. Subsequent to initial recognition, the convertible preferred shares are carried at fair value with changes in fair value recognised in the profit or loss.

Convertible and exchangeable bonds

The convertible and exchangeable bonds are classified as financial liabilities in accordance with the substance of the contractual arrangements and the definition of a financial liability. A convertible and exchangeable option that can be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments does not meet the definition of equity and is therefore accounted for as a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible and exchangeable bonds is carried at amortised cost using the effective interest method. The derivative components are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible and exchangeable bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible and exchangeable bonds using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Financial instruments (Cont'd)*

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The early redemption option embedded in a host debt contract is closely related to the host contract if the option's redemption price is approximately equal on each redemption date to the amortised cost of the host debt instrument.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Share-based payment transactions*

*Equity-settled share-based payment transactions*

Share option scheme

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

When share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

Share award scheme

The Group operates share award scheme which allows it to grant shares to selected employees. For the shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

At the end of each reporting period, the Group revises its estimate of the number of shares that are expected to vest. The impact of the revision of original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the awarded shares are vested, the amount previously recognised in treasury share reserve and the amount of the employee share-based compensation reserve will be transferred to retained profits.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Retirement benefit costs*

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are recognised as an expense when employees have rendered services entitling them to the contributions.

*Termination benefits*

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

*Short-term and other long-term employee benefits*

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRSs require or permit the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRSs require or permit their inclusion in the cost of an asset.

*Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Taxation (Cont'd)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Taxation (Cont'd)*

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in OCI or directly in equity, in which case, the current and deferred tax are also recognised in OCI or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 3.2 Significant accounting policies (Cont'd)

*Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

*Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

*Warranties*

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying the accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Accounting for companies governed under contractual arrangements as subsidiaries*

The Company and its subsidiaries do not hold any equity interests in NetDragon (Fujian), nor, in any of NetDragon (Fujian)'s subsidiaries, 福建省華漁教育科技有限公司 ("Fujian Huayu") and 福建省天晴互動娛樂有限公司 ("天晴互娛"). Nevertheless, under the contractual agreements entered into among the Group, NetDragon (Fujian) and the Ultimate Controlling Shareholders who are the registered owners of NetDragon (Fujian), the directors of the Company determine that the Group has the power to govern the financial and operating policies of NetDragon (Fujian), Fujian Huayu and 天晴互娛 so as to obtain benefits from their activities. As such, NetDragon (Fujian), Fujian Huayu and 天晴互娛 are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to RMB3,086,491,000 (2019: RMB3,293,267,000) for the year ended 31 December 2020. At 31 December 2020, total assets and total liabilities of these entities amounted to RMB1,338,618,000 (2019: RMB1,433,852,000) and RMB596,503,000 (2019: RMB579,230,000), respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Critical judgements in applying the accounting policies (Cont'd)

*Determination on lease term of contracts with renewal options*

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. Leases are considered no longer enforceable when the Group as the lessee and the relevant lessors both have the right to terminate the lease without permission from the other party with no more than an insignificant contractual penalty. The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- the extent of leasehold improvements undertaken by the Group; and
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs).

*Deferred taxation on investment properties*

For the purposes of measuring deferred tax liability or deferred tax asset arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment properties portfolio and conclude that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amount of investment properties measured using the fair value model is recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Recognition of revenue and contract liabilities from online and mobile games involving discounts given to distributors*

Online and mobile games revenue of RMB3,432,666,000 (2019: RMB3,299,626,000) is recognised after the actual usage of the game points in the online and mobile games by the customers for purchasing virtual products or premium features. Advance received in respect of unutilised game points and those arising from inactivated prepaid cards is recognised as contract liabilities.

The Group currently has different distribution and payment channels, including direct sales (by online payment systems and other direct sales channels) and pre-paid card sales through distributors. Online and mobile games income received is net of discounts given to certain distributors. As to the amount of contract liabilities of RMB14,412,000 (2019: RMB11,249,000) in respect of unutilised game points relating to the sales through distributors, management's estimation is required in determining the estimated average sales value of these unutilised game points as discounts given are different for different distributors.

In assessing the amount of estimated average sales value for the unutilised game points, management considers the discount rate applicable to each of the distributor and the income received via different distribution and payment channels. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at the end of the reporting period. The estimated average sales value of each game point is then determined by factoring the average discount rate to the monetary value of the game point. If the actual sales value of the unutilised game points differs from management's estimates, the amount of contract liabilities as well as online and mobile games revenue recognised would be affected.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty (Cont'd)

*Impairment of goodwill and intangible assets with indefinite useful lives*

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the recoverable amount of the CGUs to which goodwill and intangible assets with indefinite useful lives have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to identify CGUs, estimate growth rates in cash flow forecasts and suitable discount rate applied to these forecasts in order to calculate the present value. Where the actual future cash flow forecasts are less than expected, or change in facts and circumstances which results in downward revision of future cash flow or upward revision of discount rate, a material impairment loss or further impairment loss may arise. As at 31 December 2020, the carrying amounts of goodwill and intangible assets with indefinite useful lives are RMB241,332,000 and RMB234,871,000 (2019: RMB313,328,000 and RMB304,431,000) respectively. Details of the recoverable amount calculation of goodwill and intangible assets with indefinite useful lives are disclosed in Note 23.

*Provision of ECL for trade receivables and contract assets*

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and distributors, and the allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at an effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty (Cont'd)

*Provision of ECL for trade receivables and contract assets (Cont'd)*

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets which are credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Note 49, Note 25 and Note 29 respectively. As at 31 December 2020, the carrying amount of trade receivables is RMB525,353,000 (2019: RMB689,360,000) while allowance of credit losses for trade receivables is RMB29,050,000 (2019: RMB31,580,000). The carrying amount of contract assets as at 31 December 2020 is RMB12,236,000 (2019: RMB18,333,000) with no allowance of credit losses provided as the amount is considered as insignificant.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty (Cont'd)

*Fair values of investment properties*

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. The determination of the fair value involves certain assumptions of market conditions which are set out in Note 15.

In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

The directors of the Company have performed internal assessment on the risks of change in macroeconomic environment through performing sensitivity analysis in relation to the Group's investment properties.

As at 31 December 2020, the carrying amount of the Group's investment properties is RMB76,529,000 (2019: RMB95,090,000).

*Fair value measurements and valuation processes*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. 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 independent professional valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 15 and 49 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES

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

Disaggregation of revenue from contracts with customers

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

*Types of goods and services*

| | For the year ended 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Online and mobile games revenue<br>RMB'000 | Education revenue<br>RMB'000 | Mobile solution, products and marketing revenue<br>RMB'000 | Property project revenue<br>RMB'000 | Total<br>RMB'000 |
| Revenue from sales of pre-paid game cards for online and mobile games | 3,432,666 | – | – | – | 3,432,666 |
| Sales of education equipment and related goods | – | 2,314,569 | – | – | 2,314,569 |
| Revenue from provision of mobile solution, products and marketing services | – | – | 67,163 | – | 67,163 |
| Revenue from educational services | – | 129,372 | – | – | 129,372 |
| Revenue from property project | – | – | – | 193,870 | 193,870 |
| | 3,432,666 | 2,443,941 | 67,163 | 193,870 | 6,137,640 |

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

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

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

| | For the year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Online and mobile games revenue | Education revenue | Mobile solution, products and marketing revenue | Property project revenue | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue from sales of pre-paid game cards for online and mobile games | 3,299,626 | – | – | – | 3,299,626 |
| Sales of education equipment and related goods | – | 2,280,460 | – | – | 2,280,460 |
| Revenue from provision of mobile solution, products and marketing services | – | – | 98,051 | – | 98,051 |
| Revenue from educational services | – | 114,938 | – | – | 114,938 |
| | 3,299,626 | 2,395,398 | 98,051 | – | 5,793,075 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

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

*Timing of revenue recognition*

| | **For the year ended 31 December 2020** | | | | |
|---|---|---|---|---|---|
| | **Online and mobile games revenue RMB'000** | **Education revenue RMB'000** | **Mobile solution, products and marketing revenue RMB'000** | **Property project revenue RMB'000** | **Total RMB'000** |
| A point in time | **3,432,666** | **2,314,569** | **–** | **193,870** | **5,941,105** |
| Over time | **–** | **129,372** | **67,163** | **–** | **196,535** |
| | **3,432,666** | **2,443,941** | **67,163** | **193,870** | **6,137,640** |

| | For the year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Online and mobile games revenue RMB'000 | Education revenue RMB'000 | Mobile solution, products and marketing revenue RMB'000 | Property project revenue RMB'000 | Total RMB'000 |
| A point in time | 3,299,626 | 2,280,460 | – | – | 5,580,086 |
| Over time | – | 114,938 | 98,051 | – | 212,989 |
| | 3,299,626 | 2,395,398 | 98,051 | – | 5,793,075 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

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

*Geographical information*

| | For the year ended 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Online and mobile games revenue RMB'000 | Education revenue RMB'000 | Mobile solution, products and marketing revenue RMB'000 | Property project revenue RMB'000 | Total RMB'000 |
| PRC | 2,963,194 | 219,351 | 75 | 193,870 | 3,376,490 |
| United States of America ("USA") | 427,871 | 1,242,264 | – | – | 1,670,135 |
| Russia | – | 22,474 | – | – | 22,474 |
| United Kingdom ("UK") | – | 146,476 | – | – | 146,476 |
| Germany | – | 165,966 | – | – | 165,966 |
| Hong Kong | – | 175 | 62,769 | – | 62,944 |
| France | – | 45,913 | – | – | 45,913 |
| Egypt | – | 228,399 | – | – | 228,399 |
| Australia | – | 42,346 | – | – | 42,346 |
| Netherlands | – | 35,396 | – | – | 35,396 |
| Vietnam | – | 22,885 | – | – | 22,885 |
| Spain | – | 51,293 | – | – | 51,293 |
| Italy | – | 55,526 | – | – | 55,526 |
| Ireland | – | 24,367 | – | – | 24,367 |
| Kazakhstan | – | 14,093 | – | – | 14,093 |
| Switzerland | – | 11,680 | – | – | 11,680 |
| Others | 41,601 | 115,337 | 4,319 | – | 161,257 |
| | 3,432,666 | 2,443,941 | 67,163 | 193,870 | 6,137,640 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

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

*Geographical information (Cont'd)*

| | For the year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Online and mobile games revenue RMB'000 | Education revenue RMB'000 | Mobile solution, products and marketing revenue RMB'000 | Property project revenue RMB'000 | Total RMB'000 |
| PRC | 3,045,293 | 282,546 | – | – | 3,327,839 |
| USA | 228,090 | 1,207,427 | – | – | 1,435,517 |
| Russia | – | 24,950 | – | – | 24,950 |
| UK | – | 166,311 | – | – | 166,311 |
| Germany | – | 119,861 | – | – | 119,861 |
| Hong Kong | – | 350 | 88,578 | – | 88,928 |
| France | – | 61,354 | – | – | 61,354 |
| Egypt | – | 120,050 | – | – | 120,050 |
| Australia | – | 48,857 | – | – | 48,857 |
| Netherlands | – | 30,323 | – | – | 30,323 |
| Vietnam | – | 31,104 | – | – | 31,104 |
| Spain | – | 47,551 | – | – | 47,551 |
| Italy | – | 26,214 | – | – | 26,214 |
| Ireland | – | 26,638 | – | – | 26,638 |
| Kazakhstan | – | 8,230 | – | – | 8,230 |
| Switzerland | – | 17,241 | – | – | 17,241 |
| Others | 26,243 | 176,391 | 9,473 | – | 212,107 |
| | 3,299,626 | 2,395,398 | 98,051 | – | 5,793,075 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

Performance obligation for contracts with customers

*Revenue from online and mobile games*

For revenue from online and mobile games, the Group operates self-developed games. The Group's games are free to play. Players can purchase game points which are virtual currency for acquisition of virtual products or premium features or purchase those virtual products or premium features directly for better game experience. The Group sells prepaid game points and game products or premium features through its distribution and payment channels by (i) direct sales (both online payment systems and other direct sales channels) and (ii) pre-sale game cards sales through distributors.

The performance obligation in relation to revenue for online and mobile games is satisfied at a point in time upon the utilisation of game points for purchasing virtual products or premium features.

The virtual products or premium features purchased by the customers are mainly the consumable virtual products or premium features that are extinguished after consumption by a specific game player action in the online and mobile games. The game players will not continue to benefit from the virtual products or premium features thereafter.

The amount received from customers for prepaid game points is deferred and recorded as contract liabilities and would be recognised as revenue at a point in time (i.e. online or mobile game revenue) after the actual usage of the game points for purchasing virtual products or premium features.

Revenue recognised in respect of operating the online and mobile games is net of any discounts given to certain distributors. In assessing the estimated amount of average sales value for the unutilised game points, management considers the discount rate applicable to each of the distributor and the income received via different distributors. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at the end of the reporting period. The estimated average sales value of each game point is then determined by factoring the average discount rate to the monetary value of the game point.

The normal credit terms to its distribution and payment channels (such as Wechat Pay and Alipay) is 30 to 90 days upon the receipt of the money on game points collected from customers.

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

Performance obligation for contracts with customers (Cont'd)

*Revenue from sales of education equipment and related goods*

For revenue from sales of education equipment and related goods, the performance obligation is satisfied at a point in time when the education equipment and related goods are delivered and titles have passed. The normal credit term is 30 to 90 days upon delivery.

*Revenue from provision of mobile solution, products and marketing services*

Revenue from provision of mobile solution, products and marketing services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. It is recognised over time using output method, i.e. to recognise revenue on the basis of direct measurement of the value of goods or services promised under the contract that best depict the Group's performance in transferring control of goods or services. The contracts on provision of mobile solution, products and marketing services include payment schedules which require stage payments over the service period once certain specified milestones are reached and customers are offered 30 to 45 days credit terms after the billing is issued.

*Revenue from educational services*

Revenue from educational services which mainly represents the tuition fee are recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. It is recognised over time using input method, i.e. based on the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation contract that best depict the Group's performance in transferring control of goods or services. The Group collects the educational service fee once a year before the commencement on providing the educational services.

*Revenue from property project*

Revenue from property project is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from property project is recognised when the respective properties have been completed and delivered to the customers, which is a point in time when customers have the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Pre-sale deposits and advance payment received from customers for property project are included in contract liabilities.

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially satisfied) as at 31 December 2020 and the expected timing of recognising revenue are as follows:

| | Online and mobile games revenue RMB'000 (Note) | Education equipment and related goods revenue RMB'000 | Educational services revenue RMB'000 | Mobile solution, products and marketing revenue RMB'000 | Property project revenue RMB'000 |
|---|---|---|---|---|---|
| Within one year | **57,707** | **467,428** | **69,255** | **4,903** | **86,297** |
| More than one year but not more than two years | **–** | **260** | **20,827** | **–** | **–** |
| More than two years | **–** | **164** | **25,872** | **–** | **–** |
| | **57,707** | **467,852** | **115,954** | **4,903** | **86,297** |

The transaction price allocated to the remaining performance obligations (unsatisfied or partially satisfied) as at 31 December 2019 and the expected timing of recognising revenue are as follows:

| | Online and mobile games revenue RMB'000 (Note) | Education equipment and related goods revenue RMB'000 | Educational services revenue RMB'000 | Mobile solution, products and marketing revenue RMB'000 | Property project revenue RMB'000 |
|---|---|---|---|---|---|
| Within one year | 42,532 | 390,614 | 55,288 | 8,707 | 265,072 |
| More than one year but not more than two years | – | 3,085 | 21,951 | 1,421 | – |
| More than two years | – | – | 31,397 | 2,352 | – |
| | 42,532 | 393,699 | 108,636 | 12,480 | 265,072 |

Note: The unused game points in online and mobile games revenue have no expiration period and can be used at anytime at customers' discretion. The amounts disclosed above represent the Group's expectation on the timing of utilisation made by customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

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

Note: Government grants were received from the government of the PRC mainly for subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred, which amount of RMB140,340,000 (2019: RMB68,907,000) for the year ended 31 December 2020 is recognised in profit or loss and (ii) the purchase of property, plant and equipment, which is deferred recognised to profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure with an amount of RMB7,317,000 (2019: RMB7,596,000).

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

Details of government grants are set out in Note 35.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Other expenses and losses** | | |
| Net foreign exchange loss | 98,549 | – |
| Other tax and charges | 32,113 | 31,679 |
| Donation | 29,391 | 20,200 |
| Impairment of intangible assets | 52,687 | 137,999 |
| Impairment of goodwill | 75,226 | 83,076 |
| Loss on fair value change in investment properties | 14,714 | 2,464 |
| Redundancy payment | 14,331 | 21,237 |
| Fair value loss upon transfer from properties for sale to investment properties | 145 | – |
| Net loss on disposal of property, plant and equipment | – | 4,472 |
| Loss on disposal of subsidiaries | – | 619 |
| Others | 9,661 | 6,074 |
| | 326,817 | 307,820 |

## 6. FINANCE COSTS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Interest on bank borrowings | 17,688 | 17,401 |
| Interest on lease liabilities | 8,966 | 6,424 |
| Interest on convertible and exchangeable bonds | 129,865 | – |
| Other interest expense | 1,161 | 917 |
| | 157,680 | 24,742 |

## 7. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| (Reversal of impairment) impairment losses recognised on: | | |
| – (Reversal of impairment) impairment of trade receivables | (1,602) | 26,491 |
| – Reversal of impairment of other receivables | (5) | – |
| | (1,607) | 26,491 |

Details of impairment assessment of trade and other receivables are set out in Note 49.

## 8. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 8. SEGMENT INFORMATION (Cont'd)

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

**2020**

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

2019

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

## 8. SEGMENT INFORMATION (Cont'd)

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 8. SEGMENT INFORMATION (Cont'd)

Geographical information

The Group's operations are mainly located in the PRC, the USA and the UK in both years.

The details of the Group's revenue from external customers by geographical location of the operations are set out in Note 5.

The Group's non-current assets, excluding equity instruments at FVTOCI, financial assets at FVTPL, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| PRC | **2,643,898** | 2,475,337 |
| UK | **701,626** | 767,074 |
| Hong Kong | **125,040** | 207,556 |
| USA | **46,490** | 147,828 |
| Others | **6,990** | 8,623 |
| | **3,524,044** | 3,606,418 |

Information about major customers

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 9. TAXATION

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| The tax charge comprises: | | |
| Hong Kong Profits Tax | | |
| – Current year | **46,640** | 18,150 |
| – (Over) under provision in prior years | **(1,822)** | 495 |
| | **44,818** | 18,645 |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current year | **176,570** | 193,651 |
| – Withholding tax | **68** | 72 |
| – Under (over) provision in prior years | **2,409** | (2,836) |
| | **179,047** | 190,887 |
| Taxation in other jurisdictions | | |
| – Current year | **22,477** | 5,167 |
| – (Over) under provision in prior years | **(1,131)** | 1,788 |
| | **21,346** | 6,955 |
| Deferred taxation (Note 24) | | |
| – Current year | **(27,567)** | (53,273) |
| | **217,644** | 163,214 |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollar ("HKD") 2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HKD2 million will be taxed at 16.5%. The assessable profits of the remaining group entities not qualifying for two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

## 9. TAXATION (Cont'd)

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Fujian TQ Digital Inc. ("TQ Digital"), a wholly foreign owned enterprise, had been declared and approved as a key software enterprise on 31 May 2016 by the State Administration of Taxation (國家稅務局) which will be subject to EIT at the reduced rate of 10% and the qualification of key software enterprise is subject to review every year. TQ Digital was approved and entitled to a preferential EIT rate of 10% for the years ended 31 December 2020 and 2019.

On 1 December 2016 and 2 December 2019, Fujian TQ Online Interactive Inc. ("TQ Online") was approved to be a hi-tech enterprise and is entitled to a reduced tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every three years. Therefore, the tax rate of TQ Online for the years ended 31 December 2020 and 2019 is 15%.

On 30 November 2018, 福建省天奕網絡科技有限公司 ("天奕網絡科技") was approved to be a hi-tech enterprise and is entitled to a reduced tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every three years. Therefore, the tax rate of 天奕網絡科技 for the year ended 31 December 2020 is 15% (2019: 15%).

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of NetDragon (Fujian) is 25% for both years.

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors and interest payable to depositors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends and interest have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries and interest payable by the PRC lenders to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable.

For the year ended 31 December 2020, the USA income tax rates applicable to subsidiaries incorporated in the USA is 21% (2019: 21%) for federal tax and 8.84% (2019: 8.84%) for state income tax.

The United Kingdom Corporation Tax Rate applicable to subsidiaries is 19% for the year ended 31 December 2020 (2019: 19%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 9. TAXATION (Cont'd)

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdiction.

The tax charge for the year is reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Profit before taxation | **1,073,464** | 866,269 |
| Tax at the applicable tax rate of 25% (2019: 25%) (Note a) | **268,366** | 216,567 |
| Tax effect of share of losses of associates | **3,770** | 1,234 |
| Tax effect of share of losses of joint ventures | **446** | 843 |
| Tax effect of income not taxable for tax purpose | **(114,809)** | (71,984) |
| Tax effect of expenses not deductible for tax purpose | **174,582** | 84,392 |
| Utilisation of deductible temporary difference previously not recognised | **(7,269)** | (4,114) |
| Utilisation of tax losses previously not recognised | **(46,511)** | (12,229) |
| Tax effect of tax losses not recognised | **223,183** | 230,031 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(31,873)** | (15,046) |
| Effect of previous deductible temporary difference now recognised as deferred tax assets (Note b) | **–** | (1,521) |
| Additional tax benefit on development expenses (Note c) | **(15,496)** | (14,661) |
| Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries | **(236,241)** | (249,332) |
| Over provision in prior years | **(544)** | (553) |
| Withholding tax at 10% interest income | **68** | 72 |
| Others | **(28)** | (485) |
| Tax charge for the year | **217,644** | 163,214 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 9. TAXATION (Cont'd)

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2020 and 2019.

b. For the year ended 31 December 2019, the amount mainly represented the recognition of deferred tax asset in respect of certain tax losses of a subsidiary of the Group not being recognised as there were no probable taxable profits in the prior years. During the year ended 31 December 2019, the realisation of the related tax benefit through the future taxable profit becomes probable and therefore a deferred tax asset was recognised.

c. Pursuant to the relevant tax rules and regulations, the Group can obtain additional tax benefit, which is equivalent to 75% (2019: 75%) of the staff costs and depreciation under development costs incurred for the development of new games and advanced technology development.

Details of deferred taxation are set out in Note 24.

## 10. PROFIT FOR THE YEAR

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Staff costs: | | |
| Directors' emoluments | **36,697** | 19,997 |
| Other staff costs | | |
| Salaries and other benefits | **1,890,569** | 1,703,630 |
| Contributions to retirement benefits schemes (Note a) | **143,912** | 154,400 |
| Share-based payments expense | **8,488** | 3,669 |
| Redundancy payments | **14,331** | 21,237 |
| | **2,093,997** | 1,902,933 |
| Auditor's remuneration | | |
| – audit services | **7,214** | 5,471 |
| – non-audit services | **269** | 677 |
| | **7,483** | 6,148 |
| Amortisation of intangible assets | **109,046** | 93,986 |
| Depreciation of property, plant and equipment | **196,340** | 180,279 |
| Depreciation of right-of-use assets | **84,951** | 79,933 |
| Total depreciation and amortisation | **390,337** | 354,198 |
| Cost of goods sold for education equipment and related goods | **1,455,671** | 1,526,107 |
| Advertising and promotion expenses (included in selling and marketing expenses) | **347,924** | 364,252 |
| Gross rental income from investment properties with negligible outgoing expenses | **–** | (1,754) |
| Write-down of inventories (Note b) | **631** | – |
| Net foreign exchange loss (gain) excluding exchange (gain) loss on financial assets at FVTPL, bank borrowings, convertible preference shares, convertible and exchangeable bonds and derivative financial instruments | **98,549** | (10,949) |

Notes:

a. During the current year, the Group benefited from reduced rates of contribution to retirement benefits of PRC staff as introduced by the PRC government in order to help enterprises overcome the effects of the Covid-19 pandemic, which amounted to RMB20,717,000.

b. During the current year, there was a decrease in the net realisable value of certain raw materials due to stock surplus. As a result, a recognition of write-down on obsolete inventories of RMB631,000 (2019: Nil) due to the decrease of net realisable value has been recognised in the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and the chief executive's emoluments

The emoluments paid or payable to each of the nine (2019: nine) directors of the Company were as follows:

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Share-based payments expense | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *Executive directors* | | | | | |
| Mr. Liu Dejian | – | 929 | 19 | – | 948 |
| Mr. Liu Luyuan (Note i) | – | 918 | 28 | – | 946 |
| Mr. Zheng Hui | – | 625 | 41 | – | 666 |
| Mr. Chen Hongzhan | – | 969 | 22 | – | 991 |
| Dr. Leung Lim Kin, Simon (Note ii) | – | 7,390 | 16 | 21,963 | 29,369 |
| *Non-executive director* | | | | | |
| Mr. Lin Dongliang | – | – | – | – | – |
| *Independent non-executive directors* | | | | | |
| Mr. Chao Guowei, Charles | 701 | – | – | 558 | 1,259 |
| Mr. Lee Kwan Hung, Eddie | 701 | – | – | 558 | 1,259 |
| Mr. Liu Sai Keung, Thomas | 701 | – | – | 558 | 1,259 |
| | 2,103 | 10,831 | 126 | 23,637 | 36,697 |

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

Directors' and the chief executive's emoluments (Cont'd)

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Contributions to retirement benefits schemes | Share-based payments expense | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *Executive directors* | | | | | |
| Mr. Liu Dejian | – | 862 | – | – | 862 |
| Mr. Liu Luyuan (Note i) | – | 850 | 30 | – | 880 |
| Mr. Zheng Hui | – | 647 | 41 | – | 688 |
| Mr. Chen Hongzhan | – | 860 | 25 | – | 885 |
| Dr. Leung Lim Kin, Simon (Note ii) | – | 6,871 | 16 | 7,164 | 14,051 |
| *Non-executive director* | | | | | |
| Mr. Lin Dongliang | – | – | – | – | – |
| Independent non-executive directors | | | | | |
| Mr. Chao Guowei, Charles | 639 | – | – | 238 | 877 |
| Mr. Lee Kwan Hung, Eddie | 639 | – | – | 238 | 877 |
| Mr. Liu Sai Keung, Thomas | 639 | – | – | 238 | 877 |
| | 1,917 | 10,090 | 112 | 7,878 | 19,997 |

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Notes:

(i) Mr. Liu Luyuan is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

(ii) Included in the salaries and other benefits paid to Dr. Leung Lim Kin, Simon is an amount of RMB1,680,000 (2019: RMB1,680,000) performance related bonus during the year ended 31 December 2020 which are determined based on the Group's performance for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

Five highest paid employees

Of the five highest emoluments in the Group, during both reporting periods, one (2019: one) was executive director of the Company, whose emoluments are set out above. The emoluments of the remaining four (2019: four) individuals who are neither a director nor chief executive of the Company were as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries and other benefits | **48,970** | 36,557 |
| Contributions to retirement benefits schemes | **374** | 195 |
| Share-based payments expense | **8,661** | 1,248 |
| | **58,005** | 38,000 |

Their emoluments were within the following bands:

| | **2020** | 2019 |
|---|---|---|
| | **Number of employees** | Number of employees |
| In HKD | | |
| HKD4,000,001 to HKD4,500,000 | **–** | 1 |
| HKD4,500,001 to HKD5,000,000 | **–** | 1 |
| HKD8,000,001 to HKD8,500,000 | **1** | – |
| HKD9,000,001 to HKD9,500,000 | **1** | – |
| HKD11,500,001 to HKD12,000,000 | **–** | 1 |
| HKD21,500,001 to HKD22,000,000 | **1** | – |
| HKD22,500,001 to HKD23,000,000 | **–** | 1 |
| HKD26,000,001 to HKD26,500,000 | **1** | – |
| | **4** | 4 |

During the year ended 31 December 2020, no emoluments have been paid by the Group to any of the directors or the chief executive of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or the chief executive of the Company waived any remuneration during the years ended 31 December 2020 and 2019.

## 12. DIVIDENDS

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

The final dividend of HKD0.25 (2019: HKD0.25) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB118,044,000 (2019: RMB118,824,000).

## 13. EARNINGS PER SHARE

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

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Earnings for the purpose of basic and diluted earnings per share: | | |
| – Profit for the year attributable to the owners of the Company | **953,501** | 807,212 |

| | **Number of shares** | |
|---|---|---|
| | **2020** **'000** | 2019 '000 |
| Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme) | **556,993** | 528,682 |
| Effect of dilutive potential shares from the Company's share option scheme | **747** | 1,772 |
| Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme) | **557,740** | 530,454 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Owned properties RMB'000 | Leasehold improvements RMB'000 | Plant and equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2019 | 542,267 | 480,503 | 668,771 | 49,305 | 765,639 | 2,506,485 |
| Exchange adjustments | 265 | 414 | 6,921 | 6 | 87 | 7,693 |
| Additions | 572 | 7,978 | 94,213 | 5,894 | 337,733 | 446,390 |
| Reclassification | 939,809 | 8,058 | 9,613 | – | (957,480) | – |
| Disposals | – | (1,320) | (24,580) | (1,453) | – | (27,353) |
| Disposal of subsidiaries (Note 46) | – | – | (113) | – | – | (113) |
| At 31 December 2019 | **1,482,913** | **495,633** | **754,825** | **53,752** | **145,979** | **2,933,102** |
| Exchange adjustments | **(690)** | **(972)** | **(5,976)** | **(4)** | **(139)** | **(7,781)** |
| Additions | **46,354** | **10,097** | **68,966** | **6,083** | **140,716** | **272,216** |
| Acquisition of subsidiaries (Note 44) | **-** | **-** | **139** | **-** | **-** | **139** |
| Reclassification | **114,298** | **28,906** | **5,441** | **-** | **(148,645)** | **-** |
| Disposals | **-** | **(8,566)** | **(32,793)** | **(4,212)** | **-** | **(45,571)** |
| At 31 December 2020 | **1,642,875** | **525,098** | **790,602** | **55,619** | **137,911** | **3,152,105** |
| **DEPRECIATION** | | | | | | |
| At 1 January 2019 | 108,032 | 195,783 | 510,275 | 34,978 | – | 849,068 |
| Exchange adjustments | 260 | 372 | 5,760 | 2 | – | 6,394 |
| Provided for the year | 54,327 | 34,256 | 85,155 | 6,541 | – | 180,279 |
| Eliminated on disposals | – | (1,143) | (19,052) | (1,086) | – | (21,281) |
| Eliminated on disposal of subsidiaries (Note 46) | – | – | (55) | – | – | (55) |
| At 31 December 2019 | **162,619** | **229,268** | **582,083** | **40,435** | **-** | **1,014,405** |
| Exchange adjustments | **(663)** | **(848)** | **(5,266)** | **(3)** | **-** | **(6,780)** |
| Provided for the year | **76,151** | **33,881** | **80,820** | **5,488** | **-** | **196,340** |
| Eliminated on disposals | **-** | **(8,566)** | **(31,991)** | **(4,011)** | **-** | **(44,568)** |
| At 31 December 2020 | **238,107** | **253,735** | **625,646** | **41,909** | **-** | **1,159,397** |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2020 | **1,404,768** | **271,363** | **164,956** | **13,710** | **137,911** | **1,992,708** |
| At 31 December 2019 | 1,320,294 | 266,365 | 172,742 | 13,317 | 145,979 | 1,918,697 |

## 14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment, except for construction in progress, after taking into account the residual values, are depreciated on a straight-line basis, at the following rates per annum:

| | |
|---|---|
| Owned properties | Over the shorter of the terms of the leases of 20 years, or 4% |
| Leasehold improvements | Over the shorter of the terms of the leases, or 4.74% – 33.33% |
| Plant and equipment | 19% – 31.67% |
| Motor vehicles | 19% – 31.67% |

An analysis of the carrying values of owned properties is as below:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| In the PRC other than in Hong Kong | **1,404,768** | 1,320,294 |

## 15. INVESTMENT PROPERTIES

The Group intends to lease out various offices and car parking spaces under operating leases to earn rental income.

| | RMB'000 |
|---|---|
| **Fair value** | |
| At 1 January 2019 | 77,281 |
| Exchange adjustments | 1,683 |
| Transfer from properties for sale | 11,045 |
| Fair value gain upon transfer from properties for sale | 7,545 |
| Decrease in fair value recognised in profit or loss | (2,464) |
| At 31 December 2019 | **95,090** |
| Transfer from properties for sale | **145** |
| Fair value loss upon transfer from properties for sale | **(145)** |
| Exchange adjustments | **(3,847)** |
| Decrease in fair value recognised in profit or loss | **(14,714)** |
| At 31 December 2020 | **76,529** |

The Group's investment properties consist of two units of office premises in Hong Kong and several car parking spaces in the PRC as at 31 December 2020 and 2019.

## 15. INVESTMENT PROPERTIES (Cont'd)

(i) Office premises

The fair values of the office premises as at 31 December 2020 and 2019 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The fair values of the office premises are determined based on the market approach which uses the prices and other relevant information generated by market transactions involving comparable properties. One of the key inputs used in valuing the investment properties is the sales prices of properties nearby the Group's investment properties which ranged from HKD21,798 (equivalent to RMB18,346) per sq.ft to HKD23,856 (equivalent to RMB20,078) per sq.ft (2019: ranged from HKD24,768 (equivalent to RMB22,187) per sq.ft to HKD33,000 (equivalent to RMB29,561) per sq. ft), where sq.ft is a common unit of area used in Hong Kong. An increase in the sales prices would result in an increase in fair value measurement of the investment properties, and vice versa. There has been no change in the valuation technique used from the prior year.

(ii) Car parking spaces

The fair values of these car parking spaces have been arrived at on the basis of a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent qualified professional valuer not connected with the Group. The fair values of these car spaces are determined based on income approach by taking into account the net rental income of the properties in the existing market which have been capitalised to determine the market value. Out of the key unobservable inputs used are the yield of 2.87% (2019: 2.88%) and average market rent of RMB300 (2019: RMB300) per month. An increase in the yield and average market rent used would result in an increase in fair value, and vice versa.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The investment properties were categorised into Level 3 of the fair value hierarchy as at 31 December 2020 and 2019. There were no transfers into or out of Level 3 during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 16. INTANGIBLE ASSETS

| | Trademarks | Licence | Non-competition agreement | Customers relationship | Patent and technology | Development costs | Others | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Note a) | | (Note b) | (Note b) | (Note c) | (Note d) | | |
| **COST** | | | | | | | | |
| At 1 January 2019 | 413,191 | 50,241 | 61,031 | 146,896 | 320,110 | 203,142 | 24,312 | 1,218,923 |
| Exchange adjustments | 6,732 | 5 | – | 1,188 | 4,507 | 6,898 | 275 | 19,605 |
| Additions | – | – | – | – | – | 71,096 | – | 71,096 |
| Write off for the year | – | (8,491) | – | – | – | – | – | (8,491) |
| At 31 December 2019 | 419,923 | 41,755 | 61,031 | 148,084 | 324,617 | 281,136 | 24,587 | 1,301,133 |
| Exchange adjustments | (26,888) | (20) | - | (4,745) | (17,504) | (18,118) | (1,096) | (68,371) |
| Additions | - | - | - | - | - | 57,929 | - | 57,929 |
| Acquisition of a subsidiary (Note 44) | - | - | - | - | - | - | 27,598 | 27,598 |
| Acquisition of assets through acquisition of a subsidiary (Note 45) | - | - | - | - | - | - | 55,556 | 55,556 |
| At 31 December 2020 | 393,035 | 41,735 | 61,031 | 143,339 | 307,113 | 320,947 | 106,645 | 1,373,845 |
| **AMORTISATION/IMPAIRMENT** | | | | | | | | |
| At 1 January 2019 | 1,931 | 27,515 | 30,181 | 71,346 | 101,268 | 141,980 | 19,711 | 393,932 |
| Exchange adjustments | – | (29) | – | 770 | 1,735 | 5,219 | 275 | 7,970 |
| Provided for the year | 428 | 4,487 | 6,784 | 19,557 | 32,132 | 29,931 | 667 | 93,986 |
| Impairment loss for the year (Note e) | 111,289 | 16,670 | – | – | – | 8,346 | 1,694 | 137,999 |
| Write off for the year | – | (8,491) | – | – | – | – | – | (8,491) |
| At 31 December 2019 | 113,648 | 40,152 | 36,965 | 91,673 | 135,135 | 185,476 | 22,347 | 625,396 |
| Exchange adjustments | (10,016) | 30 | - | (3,942) | (8,670) | (15,362) | (1,095) | (39,055) |
| Provided for the year | 408 | 68 | 6,801 | 19,577 | 32,149 | 41,172 | 8,871 | 109,046 |
| Impairment loss for the year (Note e) | 52,687 | - | - | - | - | - | - | 52,687 |
| At 31 December 2020 | 156,727 | 40,250 | 43,766 | 107,308 | 158,614 | 211,286 | 30,123 | 748,074 |
| **CARRYING VALUES** | | | | | | | | |
| At 31 December 2020 | 236,308 | 1,485 | 17,265 | 36,031 | 148,499 | 109,661 | 76,522 | 625,771 |
| At 31 December 2019 | 306,275 | 1,603 | 24,066 | 56,411 | 189,482 | 95,660 | 2,240 | 675,737 |

## 16. INTANGIBLE ASSETS (Cont'd)

Notes:

a. Included in the trademarks of approximately RMB234,871,000 (2019: RMB251,116,000) as at 31 December 2020 are those acquired on acquisition of Promethean World Limited ("Promethean") and its subsidiaries (collectively referred to as "Promethean Group") having legal lives of 2 to 20 years and are renewable every 2 to 20 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

   As at 31 December 2019, there were trademark with indefinite useful life of RMB25,410,000 and RMB27,905,000 arising from the acquisition of Jumpstart Games, Inc. and its subsidiaries and Edmodo, Inc. ("Edmodo") respectively. They were fully impaired during the year ended 31 December 2020.

   The remaining balance of the trademark with finite useful lives of RMB1,437,000 (2019: RMB1,844,000) were mainly acquired on acquisition of Cherrypicks International Holdings Limited and its subsidiaries (collectively referred to as "Cherrypicks Group").

   Particulars of the impairment testing are disclosed in Note 23.

b. Intangible assets represent customers relationship and non-competition agreement mainly from the acquisition of Cherrypicks Group. Cherrypicks Group have long and close business relationship with the major customers and non-competition agreement was signed between Cherrypicks Group and its employee upon acquisition. The acquisition of Cherrypicks Group has allowed the Group to develop its long term growth from Cherrypicks Group's mobile solution and marketing business.

c. Patent and technology represents the acquired technological know-how for producing Interactive Whiteboard, Interactive Flat Panel, and augmented reality ("AR") and various mobile application. The patent and technology were acquired from the acquisition of Promethean Group, Cherrypicks Alpha Holdings Limited and its subsidiaries and Cherrypicks Alpha Resources Limited ("Cherrypicks Alpha Resources").

d. Development costs represent (i) the software for a cloud-based teaching and learning platform which connects students' tablets and laptops to interactive displays (Interactive Whiteboard and Interactive Flat Panel) and such development costs were acquired from acquisition of the Promethean Group and (ii) the technological know-how internally generated for personalised location services, marketing and e-commerce, location intelligence and data analysis.

e. During the year ended 31 December 2020, certain subsidiaries in education segment incurred loss and their recoverable amounts were assessed to be less than the carrying amounts. The directors have consequently determined impairment of intangible assets with indefinite and definite useful lives amounting to RMB52,687,000 and RMBNil respectively during the year ended 31 December 2020 (2019: RMB111,216,000 and RMB26,783,000). Taking into account the operating and industry environment of the Group and the nature of its business, the Group measured the recoverable amounts of the CGUs based on value in use using the discounted cash flow method.

## 16. INTANGIBLE ASSETS (Cont'd)

The above intangible assets, other than certain trademarks with indefinite useful lives, have finite useful lives. Such intangible assets are amortised on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Trademarks | 10% – 57.14% |
| Licence | 5% – 50% |
| Non-competition agreement | 11.11% |
| Customers relationship | 10% – 16.67% |
| Patent and technology | 10% |
| Development costs | 33.33% |
| Others | 10% – 50% |

## 17. INTERESTS IN ASSOCIATES

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Unlisted investments: | | |
| Cost of investments | **69,900** | 73,992 |
| Share of post-acquisition losses | **(20,241)** | (19,337) |
| Group's share of net assets of associates | **49,659** | 54,655 |

## 17. INTERESTS IN ASSOCIATES (Cont'd)

As at 31 December 2020 and 2019, the Group had interests in the following associates:

| Name of entities | Proportion of ownership interest and voting rights held by the Group | | Country of establishment/ operation | Registered capital | Principal activities |
|---|---|---|---|---|---|
| | **2020** | 2019 | | | |
| 101 Cayman (Note a) | **N/A** | 49.0% | Cayman Islands | US dollar ("USD")8,000,000 | Investment holding |
| 101 Education Technology Co. Ltd. ("101 BVI") (Note a) | **N/A** | 49.0% | British Virgin Islands ("BVI") | USD8,000,000 | Investment holding |
| 101 Education Technology (Hong Kong) Co. Ltd. ("101 HK") (Note a) | **N/A** | 49.0% | Hong Kong | USD8,000,000 | Provision of online education and related application business |
| 福建創思教育科技有限公司 ("福建創思教育") (Note a) | **N/A** | 49.0% | PRC | USD8,000,000 | Provision of online education and related application business |
| 福建一零一教育科技有限公司 ("福建一零一教育") (Note a) | **N/A** | 49.0% | PRC | RMB10,000,000 | Provision of online education and related application business |
| 安徽學雲教育科技有限公司 ("安徽學雲教育") (Note b) | **20.93%** | 20.93% | PRC | RMB10,117,700 | Provision of online education and related application business |
| 長沙憶不容辭教育科技有限責任公司 ("長沙憶不容辭") (Note c) | **20.0%** | 20.0% | PRC | RMB2,000,000 | Provision of online education and related application business |
| 雲啟智慧科技有限公司 ("雲啟智慧") (Note d) | **40.0%** | N/A | PRC | RMB50,000,000 | Provision of smart education |

Notes:

a. The Group holds 49% of the issued share capital of 101 Cayman, 101 BVI, 101 HK, 福建創思教育 (collectively referred to as "101 Education Group") and 福建一零一教育, and has the power to appoint three directors out of seven directors in their board. Therefore, 101 Education Group and 福建一零一教育 are classified as associates of the Group as at 31 December 2019. During the year ended 31 December 2020, the Group acquired the remaining 51% equity interests of 101 Education Group and additional equity interests of 45% of 福建一零一教育. As a result, 101 Education Group and 福建一零一教育 become subsidiaries of the Group as at 31 December 2020.

b. The Group holds 20.93% of the registered capital of 安徽學雲教育, and has the power to appoint one director out of three directors in the board. Therefore, 安徽學雲教育 is classified as an associate of the Group as at 31 December 2020 and 2019.

c. The Group holds 20% of the registered capital of 長沙憶不容辭, and has the power to appoint one director out of five directors in the board. Therefore, 長沙憶不容辭 is classified as an associate of the Group as at 31 December 2020 and 2019.

d. During the year ended 31 December 2020, the Group established 雲啟智慧 with independent third parties and holds 40% of the registered capital of 雲啟智慧, and has the power to appoint two directors out of five directors in the board. Therefore, 雲啟智慧 is classified as an associate of the Group as at 31 December 2020.

## 18. INTERESTS IN JOINT VENTURES

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Unlisted investment: | | |
| Cost of investments | **24,000** | 18,000 |
| Share of post-acquisition losses | **(7,437)** | (5,654) |
| Group's share of net assets of joint ventures | **16,563** | 12,346 |

| **Name of entities** | **Proportion of ownership interest and voting rights held by the Group** | | **Country of establishment/ operation** | **Registered capital** | **Principal activities** |
|---|---|---|---|---|---|
| | **2020** | 2019 | | | |
| 福建省國騰信息科技有限公司 ("國騰") (Note a) | **60.0%** | 60.0% | PRC | RMB1,000,000,000 | Application of information technologies, virtual reality and AR technology |
| 昆明網龍華漁科技發展有限公司 ("昆明網龍華漁") (Note b) | **60.0%** | N/A | PRC | RMB50,000,000 | Provision of training and software-as-a-service |

Notes:

a. 國騰 is a joint venture company of the Group although the Group has 60% ownership interest and voting rights in 國騰. The directors of the Company assessed whether or not the Group has joint control over 國騰 based on whether decisions about the relevant activities of the arrangement can be made without the consent of the Group. Pursuant to an agreement signed between the three joint venturers, the other two joint venturers act in concert and own 40% of shareholdings in 國騰 in aggregate, and that at least two-thirds of the voting rights are required to make decisions about the relevant activities of the arrangement. After assessment, the directors of the Company concluded that decisions about the relevant activities of the arrangement cannot be made without the consent of the Group and therefore the Group has joint control over 國騰.

b. During the year ended 31 December 2020, the Group established 昆明網龍華漁 with an independent third party and has the power to appoint three directors out of five directors in the board. 昆明網龍華漁 is a joint venture company of the Group although the Group has 60% ownership interest and voting rights in 昆明網龍華漁. The directors of the Company assessed whether or not the Group has joint control over 昆明網龍華漁 based on whether decisions about the relevant activities of the arrangement can be made without the consent of the Group. Pursuant to an agreement signed between the two joint venturers, and at least two-thirds of the voting rights are required to make decisions about the relevant activities of the arrangement. After assessment, the directors of the Company concluded that decisions about the relevant activities of the arrangement cannot be made without the consent of the Group and therefore the Group has joint control over 昆明網龍華漁.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 19. RIGHT-OF-USE ASSETS

| | Leasehold lands | Leased properties | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **COST** | | | | | |
| At 1 January 2019 | 299,864 | 135,345 | – | 1,874 | 437,083 |
| Additions | – | 112,529 | 395 | 644 | 113,568 |
| Disposals | – | (3,978) | – | – | (3,978) |
| Exchange alignment | – | 1,065 | 7 | 34 | 1,106 |
| At 31 December 2019 | **299,864** | **244,961** | **402** | **2,552** | **547,779** |
| Additions | **–** | **77,817** | **34** | **1,149** | **79,000** |
| Disposals | **–** | **(8,763)** | **–** | **–** | **(8,763)** |
| Exchange alignment | **–** | **(5,446)** | **(24)** | **(173)** | **(5,643)** |
| At 31 December 2020 | **299,864** | **308,569** | **412** | **3,528** | **612,373** |
| **DEPRECIATION** | | | | | |
| At 1 January 2019 | – | – | – | – | – |
| Provided for the year | 6,589 | 72,669 | 13 | 662 | 79,933 |
| Eliminated on disposals | – | (31) | – | – | (31) |
| Exchange alignment | – | 294 | – | 333 | 627 |
| At 31 December 2019 | **6,589** | **72,932** | **13** | **995** | **80,529** |
| Provided for the year | **6,590** | **77,276** | **85** | **1,000** | **84,951** |
| Eliminated on disposals | **–** | **(5,176)** | **–** | **–** | **(5,176)** |
| Exchange alignment | **–** | **(2,751)** | **(5)** | **(186)** | **(2,942)** |
| At 31 December 2020 | **13,179** | **142,281** | **93** | **1,809** | **157,362** |
| **CARRYING AMOUNT** | | | | | |
| At 31 December 2020 | **286,685** | **166,288** | **319** | **1,719** | **455,011** |
| At 31 December 2019 | 293,275 | 172,029 | 389 | 1,557 | 467,250 |

## 19. RIGHT-OF-USE ASSETS (Cont'd)

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Expense relating to short-term leases | **3,509** | 9,496 |
| Expense relating to leases of low-value assets, excluding short-term leases of low value assets | **36** | 54 |
| Variable lease payments not included in the measurement of lease liabilities | **345** | 142 |
| Total cash outflow for leases | **75,671** | 83,273 |
| Additions to right-of-use assets | **75,413** | 109,621 |

The above items of right-of-use assets, are depreciated on a straight-line basis, at the following rates per annum:

| | |
|---|---|
| Leasehold lands | 2% |
| Leased properties | Over the terms of the leases, or 25% |
| Office equipment | Over the terms of the leases, or 20% |
| Motor vehicles | Over the terms of the leases, or 33.3% |

For both years, the Group leases land and buildings, equipment and motor vehicles for its operations. Lease contracts are entered into for fixed term of 1 year to 20 years, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group has obtained the land use right certificates for all leasehold lands.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 19. RIGHT-OF-USE ASSETS (Cont'd)

The Group regularly entered into short-term leases and leases of low-value assets for leased properties and office equipment respectively. As at 31 December 2020, the portfolio of short-term leases and leases of low-value assets are similar to the portfolio of short-term leases and leases of low-value assets to which the short-term lease and leases of low-value assets expenses disclosed above.

The Group has extension in two leases. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. These two extension options held are exercisable only by the Group and not by the respective lessors.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The potential exposures to these future lease payments for extension options in which the Group is not reasonably certain not to exercise the extension options is summarised below:

| | **Lease liabilities recognised as at 31 December 2020 RMB'000** | **Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2020 RMB'000** | Lease liabilities recognised as at 31 December 2019 RMB'000 | Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2019 RMB'000 |
|---|---|---|---|---|
| Land and buildings – Canada | **8,425** | **12,489** | 6,421 | 7,094 |
| Land and buildings – Thailand | **-** | **-** | 113 | 986 |

## 19. RIGHT-OF-USE ASSETS (Cont'd)

The following table summarised the additional lease liabilities recognised during the years ended 31 December 2020 and 2019 due to the exercise of extension option that the Group was not reasonably certain to exercise:

| | **Extension option exercisable during the year ended 31 December 2020** | **Extension option exercised** | Extension option exercisable during the year ended 31 December 2019 | Extension option exercised |
|---|---|---|---|---|
| | **No. of leases** | **No. of leases** | No. of leases | No. of leases |
| Land and buildings – Canada | **2** | **–** | 1 | – |
| Land and buildings – Thailand | **–** | **–** | 1 | – |
| | **2** | **–** | 2 | – |
| Additional lease liabilities recognised during the year (RMB'000) | | **–** | | – |

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the years ended 31 December 2020 and 2019, there is no such triggering event.

During the current year, lessors of the relevant offices provided rent concessions to the Group through rent reductions from 50% to 100% over two to three months due to the outbreak of Covid-19.

These rent concessions occurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the current year, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of RMB248,000 were recognised as negative variable lease payments and were included in other income and gains.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Equity securities listed in Canada (Note a) | **10,808** | 4,514 |
| Unlisted equity securities in the PRC (Note b) | **–** | – |
| | **10,808** | 4,514 |

Notes:

a. The above listed equity investment represents ordinary shares of an entity listed in Toronto Stock Exchange. The investment is not held for trading, instead, it is held for long-term strategic purpose. The directors of the Company have elected to designate this investment in equity instruments at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

b. The above unlisted equity investment represents the Group's equity interests in private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI as they believe that the investment is not held for trading and not expected to be sold in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 21. LOAN RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Fixed-rate loan receivables | **3,631** | 7,122 |
| Variable-rate loan receivables | **28,832** | 29,805 |
| | **32,463** | 36,927 |
| Analysed as: | | |
| Current | **22,042** | 27,354 |
| Non-current | **10,421** | 9,573 |
| | **32,463** | 36,927 |

The effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

| | **2020** | 2019 |
|---|---|---|
| Effective interest rates: | | |
| Fixed-rate loan receivables (per annum) | **2.91% – 4.15%** | 3.33% – 4.9% |
| Variable-rate loan receivables (per annum) | **2.15% – 5.00%** | 2.15% – 5.125% |

Included in loan receivables, RMB10,217,000 (2019: RMB14,157,000) represents loans to certain key management and staff. Loan receivables are not past due or credit-impaired at the end of the reporting period. The loans are either repayable by instalments until 2021, 2022, 2023 or 2035 (2019: 2020, 2021, 2022, 2023 or 2035) or repayable in whole in 2021 and 2022. All amounts are unsecured.

Details of impairment assessment are set out in Note 49.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 22. GOODWILL

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **COST** | | |
| At 1 January | **465,473** | 459,012 |
| Acquisition of subsidiaries (Note 44) | **19,165** | – |
| Disposal of a subsidiary (Note 46 (ii)) | **–** | (8) |
| Exchange adjustments | **(24,983)** | 6,469 |
| At 31 December | **459,655** | 465,473 |
| **IMPAIRMENT** | | |
| At 1 January | **152,145** | 68,372 |
| Impairment loss recognised for the year | **75,226** | 83,076 |
| Exchange adjustments | **(9,048)** | 697 |
| At 31 December | **218,323** | 152,145 |
| **CARRYING VALUES** | | |
| At 31 December | **241,332** | 313,328 |

Particulars regarding impairment assessment of goodwill are disclosed in Note 23.

## 23. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 22 and 16 have been allocated to eleven individual or groups of CGUs. The carrying amounts of goodwill and trademarks as at 31 December 2020 and 31 December 2019 allocated to these units are as follows:

| | Goodwill | | Trademarks | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Online and mobile games: | | | | |
| CGU-1 | **–** | – | **–** | – |
| CGU-2 | **–** | – | **–** | – |
| CGU-3 | **18,830** | – | **–** | – |
| | **18,830** | – | **–** | – |
| Education: | | | | |
| CGU-4 | **–** | – | **–** | – |
| CGU-5 | **–** | – | **–** | – |
| CGU-6 | **222,167** | 237,534 | **234,871** | 251,116 |
| CGU-7 | **–** | 48,315 | **–** | 25,410 |
| CGU-8 | **–** | – | **–** | 27,905 |
| CGU-9 | **335** | – | **–** | – |
| | **222,502** | 285,849 | **234,871** | 304,431 |
| Mobile solution, products and marketing: | | | | |
| CGU-10 | **–** | 27,479 | **–** | – |
| CGU-11 | **–** | – | **–** | – |
| | **–** | 27,479 | **–** | – |
| At 31 December | **241,332** | 313,328 | **234,871** | 304,431 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 23. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (Cont'd)

The recoverable amounts of the CGUs arising from online and mobile games, education and mobile solution, products and marketing business were determined individually based on value in use calculations. Those value in use calculations use cash flow projections based on cash flow forecasts approved by management covering a five-year period and discount rates of CGU-3, CGU-6, CGU-7, CGU-8, CGU-9 and CGU-10 are 23.50% (2019: N/A), 27.26% (2019: 24.84%), 17.47% (2019: 17.54%), 20.91% (2019: 19.18%), 14.69% (2019: N/A) and 21.83% (2019: 17.65%) respectively. Cash flows beyond five-year period is extrapolated using a steady growth rate ranging from 2.0% to 3.0% (2019: 2.0% to 3.0%). Cash flow projections during the forecast period for the CGUs are based on the estimated growth rates during the forecast period. Estimated growth rates were determined based on past performance and the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of CGU-3, CGU-6 and CGU-9 to exceed their respective recoverable amounts.

During the year ended 31 December 2020, the CGU-7, CGU-8 and CGU-10 (2019: CGU-4 and CGU-8) incurred loss and its recoverable amount was assessed to be less than the carrying amount.

The directors have consequently determined impairment of goodwill directly related to the CGU-7 and CGU-10 amounting to RMB47,747,000 and RMB27,479,000, respectively (2019: CGU-4 and CGU-8 amounting to RMB12,534,000 and RMB70,542,000, respectively).

The directors have consequently determined impairment of trademarks with indefinite useful lives directly related to the CGU-7 and CGU-8 amounting to RMB25,111,000 and RMB27,576,000, respectively during the year ended 31 December 2020 (2019: CGU-8 amounting to RMB111,216,000).

No write-down of the other assets of the CGU-7, CGU-8 and CGU-10 (2019: CGU-4 and CGU-8) units is considered necessary during the year ended 31 December 2020. Management of the Group determines that there is no impairment of the remaining CGUs containing goodwill or trademarks with indefinite useful lives.

Taking into account the operating and industry environment of the Group and the nature of its business, the Group measured the recoverable amounts of the CGUs based on value in use using the discounted cash flow method.

There were no significant changes in the valuation method adopted from those adopted in the previous years.

## 24. DEFERRED TAXATION

The deferred tax assets and liabilities are presented in the consolidated statement of financial position as below:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Deferred tax assets | 43,437 | 47,317 |
| Deferred tax liabilities | (90,907) | (121,610) |
| | (47,470) | (74,293) |

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

| | Deferred revenue RMB'000 | Accelerated tax depreciation RMB'000 | Intangible assets RMB'000 | Inventories RMB'000 | Tax losses RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 6,190 | (192) | (160,591) | 2,335 | 21,530 | 5,054 | (125,674) |
| Credited (charged) to profit or loss | 71 | 28 | 44,702 | (541) | (9,778) | 18,791 | 53,273 |
| Exchange adjustments | 103 | (4) | (2,441) | 28 | 115 | 307 | (1,892) |
| At 31 December 2019 | 6,364 | (168) | (118,330) | 1,822 | 11,867 | 24,152 | (74,293) |
| Credited (charged) to profit or loss | 2,014 | 63 | 28,660 | (215) | (7,753) | 4,798 | 27,567 |
| Acquisition of a subsidiary (Note 44) | - | - | (4,133) | - | - | - | (4,133) |
| Exchange adjustments | (520) | 6 | 5,886 | (90) | (74) | (1,819) | 3,389 |
| At 31 December 2020 | 7,858 | (99) | (87,917) | 1,517 | 4,040 | 27,131 | (47,470) |

At the end of the reporting period, the Group has taxable temporary differences associated with undistributed earnings of PRC subsidiaries of RMB6,092,230,000 (2019: RMB4,579,039,000). No deferred tax liability has been recognised for these undistributed earnings because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 24. DEFERRED TAXATION (Cont'd)

A deferred tax asset has been recognised in respect of RMB15,187,000 (2019: RMB45,307,000) of the unused tax losses of the Group during the year ended 31 December 2020. The Group has not recognised deferred tax assets arising from tax losses amounting to RMB2,541,873,000 (2019: RMB2,206,943,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. The unrecognised tax losses will be expired in year 2021, 2022, 2023, 2024 and 2025 are RMB412,299,000, RMB425,184,000, RMB493,557,000, RMB623,570,000 and RMB587,263,000 (2019: expired in year 2020, 2021, 2022, 2023 and 2024 are RMB227,536,000, RMB411,007,000, RMB423,384,000, RMB480,731,000 and RMB664,285,000) respectively, which are five years from year in which the loss was originated, to offset against future taxable profits. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of RMB147,222,000 (2019: RMB163,761,000). A deferred tax asset has been recognised in respect of RMB154,616,000 (2019: RMB137,143,000) of such differences of the Group during the year ended 31 December 2020. No deferred tax asset has been recognised in respect of the remaining differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Others mainly represented deferred tax assets related to accrued expenses and other miscellaneous items.

## 25. TRADE RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade receivables | **554,403** | 720,940 |
| Less: Allowance of credit losses | **(29,050)** | (31,580) |
| | **525,353** | 689,360 |

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

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

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

## 25. TRADE RECEIVABLES (Cont'd)

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

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB118,310,000 (2019: RMB153,862,000) which are past due as at the reporting date. Out of the past due balances, RMB59,658,000 (2019: RMB111,250,000) has been past due 90 days or more and is not considered as in default for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Before accepting any new distributor/customer, the Group uses an internal credit assessment policy to assess the potential distributor/customer's credit quality and define credit limits by distributor/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Details of impairment assessment of trade receivables are set out in Note 49.

## 26. PROPERTIES UNDER DEVELOPMENT/PROPERTIES FOR SALE

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Properties under development | **263,915** | 469,070 |
| Properties for sale | **253,367** | 20,640 |
| | **517,282** | 489,710 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 26. PROPERTIES UNDER DEVELOPMENT/PROPERTIES FOR SALE (Cont'd)

The Group's properties under development are situated in the PRC. All of the properties under development are stated at the lower of cost and net realisable value. As at 31 December 2020 and 2019, the properties under development are expected to be realised within twelve months from the end of the reporting period.

During the year ended 31 December 2020, the decrease in properties under development was mainly due to certain property projects were completed and sold. In 2020, RMB145,000 (2019: RMB11,045,000) was transferred from properties under development to properties for sale and then transfer to investment properties.

Analysis of leasehold lands:

| | RMB'000 |
|---|---|
| **At 1 January 2020** | |
| Carrying amount | 224,946 |
| **At 31 December 2020** | |
| Carrying amount | 210,590 |

The carrying amount of leasehold lands is measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands taking into account the estimated residual values as at 31 December 2020 and 2019.

## 27. INVENTORIES

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Raw materials | 5,671 | 6,789 |
| Work in progress | – | 71 |
| Finished goods | 311,238 | 230,618 |
| | 316,909 | 237,478 |

## 28. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Prepayments to suppliers | **90,870** | 100,306 |
| Prepayments for rented premises, utilities and server | **58,751** | 88,534 |
| Refundable rental and guarantee deposits | **77,035** | 85,482 |
| Other receivables from agent for repurchasing the shares of the Company | **65,645** | – |
| Prepayment for convertible and exchangeable bonds interest | **48,937** | – |
| Prepayment for promotion expenses | **20,088** | – |
| Interest receivables | **4,722** | 3,836 |
| Other tax recoverable | **60,675** | 79,623 |
| Others | **35,655** | 28,417 |
| | **462,378** | 386,198 |
| Analysed for financial reporting purpose: | | |
| Non-current | **62,841** | 57,829 |
| Current | **399,537** | 328,369 |
| | **462,378** | 386,198 |

Included in prepayments for rented premises, utilities and server and refundable rental and guarantee deposits, there are balances of:

(i) RMB31,468,000 (2019: RMB31,621,000) which represents prepayment and deposit for potential lease contracts paid to a related company 福州楊振華851生物工程技術研究開發有限公司 (Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.) ("Fuzhou 851").

(ii) RMB25,000,000 (2019: RMB25,000,000) which represents deposit for technical support service paid to 福州天亮網絡技術有限公司 (Fuzhou Tianliang Network Technology Co., Limited) ("Fuzhou Tianliang") as at 31 December 2020.

Details of impairment assessment of other receivables are set out in Note 49.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 29. CONTRACT ASSETS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Mobile solution, products and marketing services | 10,619 | 13,352 |
| Education equipment and related goods | 1,617 | 4,981 |
| | 12,236 | 18,333 |

As at 1 January 2019, contract assets amounted to RMB32,164,000.

The contract assets primarily relate to retention receivables on education equipment and related goods, and 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. The contract assets are transferred to trade receivables when the rights become unconditional.

Details of the impairment assessment of contract assets are set out in Note 49.

## 30. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company disclosed pursuant to section 383 of the Hong Kong Companies Ordinance are as follows:

| Name of related company | Terms | Balance at 31 December 2020 RMB'000 | Balance at 31 December 2019 RMB'000 | Maximum amount outstanding during the year 2020 RMB'000 | Maximum amount outstanding during the year 2019 RMB'000 |
|---|---|---|---|---|---|
| 北京企航互動網絡科技有限公司 ("北京企航") (Note) | Unsecured, non-interest bearing and repayable on demand | 47 | 849 | 849 | 849 |

Note: 北京企航 is an entity wholly owned by Mr. Zheng Hui, who is the executive director of the Company.

Details of the impairment assessment of amount due from a related company are set out in Note 49.

## 31. AMOUNT(S) DUE FROM ASSOCIATES/JOINT VENTURES/A DIRECTOR

As at 31 December 2019 and 2020, the amounts due from associates and joint ventures are not trade in nature, unsecured, non-interest bearing and repayable on demand.

As at 31 December 2019 and 2020, the amount due from a director was not trade in nature, unsecured, non-interest bearing and repayable on demand. The amount due from a director was fully repaid and the maximum balance was RMB400,000 during the year ended 31 December 2020.

Details of the impairment assessment of amounts due from associates, joint ventures and a director are set out in Note 49.

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

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Financial assets designated at FVTPL: | | |
| – Equity-linked warrants | **3,723** | 1,492 |
| – Unlisted funds (Note i) | **281,194** | – |
| – Others | **2,058** | – |
| | **286,975** | 1,492 |
| Analysed for financial reporting purpose: | | |
| Current | **5,781** | 1,492 |
| Non-current | **281,194** | – |
| | **286,975** | 1,492 |
| Derivative financial instruments: | | |
| – Convertible and exchangeable option (Note 40) | **–** | – |
| – Unlisted warrants (Note ii) | **40,894** | – |
| | **40,894** | – |

Notes:

(i) The unlisted funds represent a portfolio of investments managed by fund managers, most of the portfolio assets are invested in the listed securities in Hong Kong and the PRC. These investments are not held for trading, instead, they are held for long-term purposes. The Group is not expected to realise the funds within twelve months from the end of the reporting period, therefore the unlisted funds are classified as non-current assets.

(ii) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 40.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 33. RESTRICTED BANK BALANCES/PLEDGED BANK DEPOSITS/BANK DEPOSIT WITH ORIGINAL MATURITY OVER THREE MONTHS/BANK BALANCES AND CASH

Restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances carry interest at prevailing banking deposit rates which ranges from 0.001% to 2.600% (2019: 0.001% to 2.500%) per annum.

Restricted bank balances are for guarantee completion of constructions and purchase of financial assets at FVTPL.

Details of the impairment assessment of restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances are set out in Note 49.

## 34. LEASE LIABILITIES

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within one year | **56,224** | 54,603 |
| Within a period of more than one year but not more than two years | **50,384** | 36,257 |
| Within a period of more than two years but not more than five years | **63,304** | 67,164 |
| Within a period of more than five years | **2,765** | 5,382 |
| | **172,677** | 163,406 |
| Less: Amount due for settlement with 12 months shown under current liabilities | **(56,224)** | (54,603) |
| Amount due for settlement after 12 months shown under non-current liabilities | **116,453** | 108,803 |

The effective interest rate on the Group's lease liabilities was 5.28% (2019: 5.49%) during the year ended 31 December 2020.

## 35. TRADE AND OTHER PAYABLES

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Notes:

(a) The amount represents government grants which are (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for development costs already incurred and (ii) the costs incurred by the Group for purchasing property, plant and equipment, which will recognise 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. The following table discloses the movement of government grants:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **43,634** | 19,863 |
| Additions | **180,899** | 100,274 |
| Release to profit or loss during the year (Note 5) | **(157,618)** | (76,503) |
| At 31 December | **66,915** | 43,634 |
| Analysed for financial reporting purpose: | | |
| Current | **61,506** | 37,589 |
| Non-current | **5,409** | 6,045 |
| | **66,915** | 43,634 |

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

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

(c) Others mainly represent office and server service expenses payables and other miscellaneous items for operating activities.

## 36. CONTRACT LIABILITIES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Online and mobile games (Note i) | **53,326** | 42,532 |
| Education equipment and related goods (Note i) | **214,547** | 196,324 |
| Mobile solution, products and marketing services (Note i) | **2,228** | 267 |
| Educational services (Note i) | **37,629** | 22,039 |
| Property project (Note ii) | **97,753** | 268,335 |
| | **405,483** | 529,497 |

As at 1 January 2019, contract liabilities amounted to RMB412,462,000.

Notes:

(i) The contract liabilities include unutilised game points on online and mobile games, advance payments from customers for contracted education equipment and related goods, advance payments from customers for mobile solution, products and marketing services and advance payments from customers for educational services. The contract liabilities are transferred to revenue when customers control and receive the goods, services and benefits.

As at 31 December 2020, RMB14,412,000 and RMB38,914,000 (2019: RMB11,249,000 and RMB31,283,000) are contract liabilities in respect of unutilised game points relating to the sales through distributors and direct sales customers respectively.

(ii) The amount represents the pre-sale deposits and advance payment received from customers for property project prior to the respective properties have been completed and delivered to the customers which is a point in time when customers have the ability to direct the use of the properties and obtain substantially all the remaining benefits of the properties. The Group receives a fixed amount of RMB50,000 as deposits from customers when they sign the sale and purchase agreement. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the customer obtains control of the completed property. The significant decrease in contract liabilities from the property project in the current year was due to the commencement of pre-sale of properties by the Group in 2020.

Revenue amounting to RMB243,947,000 recognised during the year ended 31 December 2020 (2019: RMB211,485,000) was included in contract liabilities balance at the beginning of the reporting period. There was no revenue recognised during the year that related to performance obligations that were satisfied in prior periods.

## 37. PROVISIONS

| | Warranty | Others | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2019 | 59,544 | 392 | 59,936 |
| Additional provisions | 28,362 | (381) | 27,981 |
| Utilisation of provisions | (17,362) | – | (17,362) |
| Exchange adjustments | (677) | (11) | (688) |
| At 31 December 2019 | **69,867** | **–** | **69,867** |
| Additional provisions | **28,858** | **–** | **28,858** |
| Utilisation of provisions | **(24,387)** | **–** | **(24,387)** |
| Exchange adjustments | **(2,837)** | **–** | **(2,837)** |
| At 31 December 2020 | **71,501** | **–** | **71,501** |

The Group provided warranty on its education equipment sold to its customers. The warranty provision is calculated by estimating the possible failure rates of the Promethean Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period ranges from one to seven years and varies depending on both the product and the country the product is sold to.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

## 38. AMOUNT(S) DUE TO A RELATED COMPANY/ASSOCIATES/A JOINT VENTURE

The amounts are trade in nature, aged within 90 days, unsecured, non-interest bearing and repayable on demand.

## 39. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, Best Assistant, an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 12.7% of the issued share capital of the Company, "IDG Investors"), Vertex Legacy Continuation Fund Pte Ltd. (formerly held by Vertex Asia Fund Pte. Ltd.) ("Vertex Legacy"), Hong Kong Alpha Group Limited (formerly known as Alpha Animation and Culture (Hong Kong) Company Limited) ("Hong Kong Alpha"), Catchy Holdings Limited, DJM (in which Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company together have 100% equity interest), Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company. The Series A convertible preferred shares are denominated in USD.

On 2 May 2018, Best Assistant issued 112,560,245 Series B convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD122,500,000 (equivalent to approximately RMB780,713,000) to Fortis Advisors LLC as a consideration to acquire Edmodo. The Series B convertible preferred shares are denominated in USD.

Conversion

The Series A and Series B convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to certain adjustments (such as proportional adjustment and anti-dilution adjustment).

The Series A and Series B convertible preferred shares shall be automatically converted into ordinary shares upon occurrence of an underwritten public offering of the ordinary shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD1,000,000,000 and net proceeds to the subsidiary of the Company are in excess of USD100,000,000.

Dividends

The holders of the outstanding Series A and Series B convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of the funds lawfully available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares or other equity securities. The right to receive dividends on the Series A and Series B convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

## 39. CONVERTIBLE PREFERRED SHARES (Cont'd)

Liquidation

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of the subsidiary of the Company. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of the Series A convertible preferred shares, plus all declared but unpaid dividends.

The holders of the Series B convertible preferred shares shall be entitled to receive for each of the outstanding Series B convertible preferred shares held, an amount equal to the Series B adjusted price, plus all declared but unpaid dividends. The Series B adjusted price means, at any given time, the Series B issue price by a fraction, (i) the numerator of which is equal to the original Series B value minus the aggregate indemnification claim amount, and (ii) the denominator of which is the original Series B value; provided that the Series B adjusted price will not be reduced below USD0.001 per share.

If the assets and funds thus distributed amount the preferred shareholders shall be insufficient for the full payment of the preference amount to all the preferred shareholders, then the entire assets and funds of Best Assistant legally available for distribution shall be distributed rateably among the preferred shareholders in proportion to the aggregate preference amount each such preferred shareholder is otherwise entitled to receive.

The Group has elected to designate the Series A and Series B convertible preferred shares with embedded derivatives as financial liabilities at FVTPL on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A and Series B convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The movements of the Series A and Series B convertible preferred shares for the year are set out as below:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| At 1 January | – | 108,904 |
| Fair value change | – | (110,697) |
| Exchange adjustments | – | 1,793 |
| At 31 December | – | – |

During the year ended 31 December 2019, there was a decrease in fair value on convertible preferred shares of RMB110,697,000 (2020: Nil) as Best Assistant and its subsidiaries ("Best Assistant Group") have been loss-making resulting in a decrease in value of the dividend rights that form the basis of the value of the instrument.

## 40. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, Best Assistant issued convertible and exchangeable bonds with an aggregate principal amount of USD150,000,000 (equivalent to RMB1,038,900,000) to Nurture Education (Cayman) Limited (the "Investor"). Simultaneously, the Company issued unlisted warrants to the Investor in March 2020. The warrants shall entitle the Investor with the rights to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds bear interest accruing at a rate of 5% per annum on the aggregate principal amount of the convertible and exchangeable bonds and will be due on the fifth anniversary from the bond issue date ("Maturity Date"). The convertible and exchangeable bonds are denominated in USD.

Convertible and exchangeable option

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

Warrants

Simultaneously with the issue of the convertible and exchangeable bonds, the Company issued to the Investor the warrant with a subscription price of HKD21.1998 per share. The warrant is allotted to subscribe at any time and from time to time during the issue date to Maturity Date for up to 11,502,220 shares. At initial recognition, the warrants were classified as derivative financial instrument at a fair value of approximately RMB86,795,000.

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

Redemption

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 41. BANK BORROWINGS

The carrying amounts of the bank borrowings are repayable*:

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

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

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

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

## 41. BANK BORROWINGS (Cont'd)

The Group's variable-rate borrowings for the year ended 31 December 2020 carry interest at (i) one-month HIBOR plus 2.20% to 2.35% per annum, (ii) higher of twelve-month LIBOR plus 0.50% or 3.40% per annum, (iii) benchmark interest rate of three-year borrowings of the People's Bank of China (the "PBC") plus 0.10% to 0.35% per annum, (iv) benchmark interest rate of five-year borrowings of the PBC plus 0.1% per annum or (v) interest rate of 1.00% or 3.85% per annum.

The Group's variable-rate borrowings for the year ended 31 December 2019 carry interest at (i) one-month HIBOR plus 2.20% or 2.90% per annum, (ii) higher of twelve-month LIBOR plus 0.50% or 3.40% per annum, (iii) benchmark interest rate of three-year borrowings of the PBC plus 0.10% to 0.35% per annum or (iv) benchmark interest rate of five-year borrowings of the PBC plus 0.30% per annum or (v) interest rate of 4.94% or 6.00% per annum .

The range of effective interest rates on the Group's bank borrowings are as follows:

| | **2020** | 2019 |
|---|---|---|
| Variable-rate borrowings | **2.30% to 5.20%** | 3.25% to 6.00% |
| Fixed-rate borrowings | **1.00% to 3.85%** | – |

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

## 42. SHARE CAPITAL

| | Number of shares | Nominal value | |
|---|---|---|---|
| | | USD | RMB'000 |
| **Authorised:** | | | |
| Ordinary shares of USD0.01 each | | | |
| At 1 January 2019, 31 December 2019 and 31 December 2020 | **1,000,000,000** | **10,000,000** | **75,771** |
| **Issued and fully paid:** | | | |
| Ordinary shares of USD0.01 each | | | |
| At 1 January 2019 | 531,146,216 | 5,311,462 | 38,863 |
| Shares issued upon exercise of share options (Note i) | 232,600 | 2,326 | 16 |
| Repurchase and cancellation of shares (Note ii) | (784,000) | (7,840) | (57) |
| At 31 December 2019 | **530,594,816** | **5,305,948** | **38,822** |
| Issue of new shares (Note i) | **33,000,000** | **330,000** | **2,318** |
| Shares issued upon exercise of share options (Note i) | **345,700** | **3,457** | **24** |
| Repurchase and cancellation of shares (Note ii) | **(2,920,000)** | **(29,200)** | **(213)** |
| At 31 December 2020 | **561,020,516** | **5,610,205** | **40,951** |

Notes:

(i) During the year ended 31 December 2020, 345,700 (2019: 232,600) share options were exercised and as a result of 345,700 (2019: 232,600) ordinary shares were issued. Approximately RMB24,000 (2019: RMB16,000) and RMB2,665,000 (2019: RMB5,976,000) were recorded as share capital and share premium, respectively. 33,000,000 ordinary shares were issued to DJM which is wholly-owned by a controlling shareholder of the Company, Mr. Liu Dejian. Approximately RMB2,318,000 and RMB694,309,000 were recorded as share capital and share premium, respectively.

(ii) During the year ended 31 December 2020, the Company repurchased 2,920,000 (2019: 784,000) of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was approximately RMB43,308,000 (2019: RMB8,802,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 43. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Old Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The Old Scheme has expired on 12 June 2018 and a new share option scheme (the "New Scheme") was approved and adopted by the shareholders at the annual general meeting of the Company held on 24 May 2018. Subject to early termination, the Old Scheme and the New Scheme shall be valid and effective for a period of 10 years from 12 June 2008 and 24 May 2018, respectively. The purpose of the Old Scheme and the New Scheme is to provide the eligible participant ("Eligible Participants") as defined in the Old Scheme and the New Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible Participants of the Old Scheme and the New Scheme include employees, executives and officers of the members of the Group (including executive and non-executive directors of the members of the Group) and business consultants, agents and legal and financial advisers to the members of the Group whom the board of directors considers, in its sole discretion, will contribute or have contributed to the members of the Group.

At 31 December 2020, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 2,111,384 (31 December 2019: 2,457,084), representing 0.38% (31 December 2019: 0.46%) of the shares of the Company in issue at that date. As at the date of this report, the number of securities of the Company available for issue under the New Scheme was 47,041,969 (31 December 2019: 53,341,969), representing approximately 8.39% (31 December 2019: 10.04%) of the issued share capital of the Company as at the date of this report. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue as at the date of grant. Where any further grant of options to an Eligible Participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

(i) Equity-settled share option scheme (Cont'd)

Options granted must be taken up within 28 days from the date of the offer, upon payment of a nominal consideration of HKD1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. There is no general requirement that an option must be held for any minimum period before it can be exercised but the board of directors of the Company is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

Details of specific categories of options are as follows:

**Batch 1:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 28 April 2011 | 28 April 2011 – 27 April 2012 | 28 April 2012 – 27 April 2021 | **1,440** | 1,440 |
| 28 April 2011 | 28 April 2011 – 27 April 2013 | 28 April 2013 – 27 April 2021 | **8,427** | 8,427 |
| 28 April 2011 | 28 April 2011 – 27 April 2014 | 28 April 2014 – 27 April 2021 | **28,825** | 28,825 |
| 28 April 2011 | 28 April 2011 – 27 April 2015 | 28 April 2015 – 27 April 2021 | **25,875** | 25,875 |
| 28 April 2011 | 28 April 2011 – 27 April 2016 | 28 April 2016 – 27 April 2021 | **277,300** | 277,300 |
| | | | **341,867** | 341,867 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(i) Equity-settled share option scheme (Cont'd)

**Batch 2:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 22 July 2011 | 22 July 2011 – 21 July 2013 | 22 July 2013 – 21 July 2021 | **101** | 101 |
| 22 July 2011 | 22 July 2011 – 21 July 2014 | 22 July 2014 – 21 July 2021 | **5,500** | 5,500 |
| 22 July 2011 | 22 July 2011 – 21 July 2015 | 22 July 2015 – 21 July 2021 | **2,399** | 2,399 |
| | | | **8,000** | 8,000 |

**Batch 3:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 23 April 2012 | 23 April 2012 – 22 April 2013 | 23 April 2013 – 22 April 2022 | **5,167** | 5,417 |
| 23 April 2012 | 23 April 2012 – 22 April 2014 | 23 April 2014 – 22 April 2022 | **10,950** | 111,325 |
| 23 April 2012 | 23 April 2012 – 22 April 2015 | 23 April 2015 – 22 April 2022 | **17,000** | 217,500 |
| 23 April 2012 | 23 April 2012 – 22 April 2016 | 23 April 2016 – 22 April 2022 | **39,500** | 40,125 |
| 23 April 2012 | 23 April 2012 – 22 April 2017 | 23 April 2017 – 22 April 2022 | **54,900** | 55,650 |
| | | | **127,517** | 430,017 |

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

(i) Equity-settled share option scheme (Cont'd)

**Batch 4:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 12 September 2012 | 12 September 2012 – 11 September 2013 | 12 September 2013 – 11 September 2022 | **4,200** | 4,200 |
| 12 September 2012 | 12 September 2012 – 11 September 2014 | 12 September 2014 – 11 September 2022 | **6,300** | 6,300 |
| 12 September 2012 | 12 September 2012 – 11 September 2015 | 12 September 2015 – 11 September 2022 | **8,400** | 8,400 |
| 12 September 2012 | 12 September 2012 – 11 September 2016 | 12 September 2016 – 11 September 2022 | **14,250** | 14,250 |
| 12 September 2012 | 12 September 2012 – 11 September 2017 | 12 September 2017 – 11 September 2022 | **17,100** | 17,100 |
| | | | **50,250** | 50,250 |

**Batch 5:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 16 January 2013 | 16 January 2013 – 15 January 2014 | 16 January 2014 – 15 January 2023 | **3,350** | 3,350 |
| 16 January 2013 | 16 January 2013 – 15 January 2015 | 16 January 2015 – 15 January 2023 | **5,025** | 5,025 |
| 16 January 2013 | 16 January 2013 – 15 January 2016 | 16 January 2016 – 15 January 2023 | **25,300** | 37,100 |
| 16 January 2013 | 16 January 2013 – 15 January 2017 | 16 January 2017 – 15 January 2023 | **38,125** | 46,875 |
| 16 January 2013 | 16 January 2013 – 15 January 2018 | 16 January 2018 – 15 January 2023 | **59,450** | 82,100 |
| | | | **131,250** | 174,450 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(i) Equity-settled share option scheme (Cont'd)

**Batch 6:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 4 December 2013 | 4 December 2013 – 3 December 2014 | 4 December 2014 – 3 December 2023 | **159,000** | 159,000 |
| 4 December 2013 | 4 December 2013 – 3 December 2015 | 4 December 2015 – 3 December 2023 | **238,500** | 238,500 |
| 4 December 2013 | 4 December 2013 – 3 December 2016 | 4 December 2016 – 3 December 2023 | **477,000** | 477,000 |
| | | | **874,500** | 874,500 |

**Batch 7:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 25 April 2014 | 25 April 2014 – 31 December 2016 | 1 January 2017 – 24 April 2024 | **139,000** | 139,000 |
| 25 April 2014 | 25 April 2014 – 31 December 2017 | 1 January 2018 – 24 April 2024 | **139,000** | 139,000 |
| | | | **278,000** | 278,000 |

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

(i) Equity-settled share option scheme (Cont'd)

**Batch 8:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 11 May 2015 | 11 May 2015 – 6 October 2017 | 7 October 2017 – 10 May 2025 | – | – |
| 11 May 2015 | 11 May 2015 – 6 October 2018 | 7 October 2018 – 10 May 2025 | – | – |
| 11 May 2015 | 11 May 2015 – 6 October 2019 | 7 October 2019 – 10 May 2025 | – | – |
| | | | – | – |

**Batch 9:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 31 March 2017 | 31 March 2017 – 30 March 2018 | 31 March 2018 – 30 March 2027 | 75,000 | 75,000 |
| 31 March 2017 | 31 March 2017 – 30 March 2019 | 31 March 2019 – 30 March 2027 | 75,000 | 75,000 |
| 31 March 2017 | 31 March 2017 – 30 March 2020 | 31 March 2020 – 30 March 2027 | 150,000 | 150,000 |
| | | | 300,000 | 300,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(i) Equity-settled share option scheme (Cont'd)

**Batch 10:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2020 | Outstanding at 31 December 2019 |
|---|---|---|---|---|
| 24 January 2020 | 24 January 2020 – 23 January 2021 | 24 January 2021 – 23 January 2030 | 1,599,000 | – |
| 24 January 2020 | 24 January 2020 – 23 January 2022 | 24 January 2022 – 23 January 2030 | 1,599,000 | – |
| 24 January 2020 | 24 January 2020 – 23 January 2023 | 24 January 2023 – 23 January 2030 | 1,602,000 | – |
| 24 January 2020 | 24 January 2020 – 23 January 2024 | 24 January 2024 – 23 January 2030 | 1,500,000 | – |
| | | | 6,300,000 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(i) Equity-settled share option scheme (Cont'd)

The following table discloses the movement of the share options during the year ended 31 December 2020:

| Option batch | Exercise price HKD | Outstanding at 1 January 2020 | Granted during year | Exercised during year | Forfeited during year | Outstanding at 31 December 2020 |
|---|---|---|---|---|---|---|
| Batch 1 | 4.80 | 341,867 | - | - | - | 341,867 |
| Batch 2 | 4.60 | 8,000 | - | - | - | 8,000 |
| Batch 3 | 5.74 | 430,017 | - | (302,500) | - | 127,517 |
| Batch 4 | 7.20 | 50,250 | - | - | - | 50,250 |
| Batch 5 | 11.16 | 174,450 | - | (43,200) | - | 131,250 |
| Batch 6 | 15.72 | 874,500 | - | - | - | 874,500 |
| Batch 7 | 14.66 | 278,000 | - | - | - | 278,000 |
| Batch 9 | 23.65 | 300,000 | - | - | - | 300,000 |
| Batch 10 | 21.07 | - | 6,300,000 | - | - | 6,300,000 |
| | | 2,457,084 | 6,300,000 | (345,700) | - | 8,411,384 |
| Exercisable at the end of the year 2020 | | | | | | 2,111,384 |
| Weighted average exercise price | | HKD12.77 | | | | HKD19.25 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(i) Equity-settled share option scheme (Cont'd)

The following table discloses the movement of the share options during the year ended 31 December 2019:

| Option batch | Exercise price HKD | Outstanding at 1 January 2019 | Granted during year | Exercised during year | Forfeited during year | Outstanding at 31 December 2019 |
|---|---|---|---|---|---|---|
| Batch 1 | 4.80 | 343,492 | – | (1,625) | – | 341,867 |
| Batch 2 | 4.60 | 8,000 | – | – | – | 8,000 |
| Batch 3 | 5.74 | 450,117 | – | (20,100) | – | 430,017 |
| Batch 4 | 7.20 | 50,250 | – | – | – | 50,250 |
| Batch 5 | 11.16 | 251,325 | – | (76,875) | – | 174,450 |
| Batch 6 | 15.72 | 874,500 | – | – | – | 874,500 |
| Batch 7 | 14.66 | 278,000 | – | – | – | 278,000 |
| Batch 8 | 27.75 | 134,000 | – | (134,000) | – | – |
| Batch 9 | 23.65 | 300,000 | – | – | – | 300,000 |
| | | 2,689,684 | – | (232,600) | – | 2,457,084 |
| Exercisable at the end of the year 2019 | | | | | | 2,307,084 |
| Weighted average exercise price | | HKD13.41 | | | | HKD12.77 |

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

(i) Equity-settled share option scheme (Cont'd)

During the year ended 31 December 2020, 6,300,000 share options were granted on 24 January 2020. The estimated fair value of the share options granted on that date was approximately RMB56,249,000. The fair value was calculated using the Binomial option pricing model. The inputs into the model were as follows:

| | |
|---|---|
| Closing price of the Company's shares on grant date | HKD20.20 |
| Exercise price | HKD21.07 |
| Risk-free interest rate | 1.511% |
| Expected volatility | 50.604% |
| Expected dividend yield | 1.485% |

Expected volatility was determined by reference to the annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price.

The weighted average remaining contractual lives of the Company's share options as at 31 December 2020 is 7.51 years (2019: 3.64 years). The exercise prices of the Company's share options outstanding as at 31 December 2020 range from HKD4.8 to HKD23.65 (2019: HKD4.8 to HKD23.65).

The Group recognised the total expense of RMB27,760,000 for the year ended 31 December 2020 (2019: RMB847,000) in relation to share options granted by the Company.

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

(ii) Share award scheme by the Company

Pursuant to a circular to shareholders of the Company dated 3 September 2008, the Company introduced a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The selected employee are not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

The aggregate number of the Award is not permitted to exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The eligibility of employees to participate in the Share Award Scheme and number of shares which are the subject of each Award at each date of grant to a selected employee in accordance with the Share Award Scheme shall be determined at the absolute discretion of the committee, which comprised the directors of the Company duly appointed by the board of directors to administer the Share Award Scheme (the "Committee"), which shall take into consideration various factors including the general financial condition of the Group, the rank and performance of the relevant employee and such other general criteria as the Committee may consider appropriate as well as other limitations set forth under the Listing Rules and those rules of the Share Award Scheme.

In determining the number of shares to be awarded each year, the Committee shall have reference to the financial performance of the Group as reflected in the profit before taxation of the financial year.

The grant of the Award to the selected employee shall be accepted by the selected employee within 28 days from the date of offer. The selected employee may accept or refuse the whole but not part of a grant of the Award. If the grant of the Award is not accepted by the selected employee within 28 days from the date of offer, the offer shall upon the expiry of the 28 days period automatically lapse and shall be null and void.

Performance conditions (the "Performance Conditions") refers to the condition or conditions imposed by the Company on the selected employee's employment with the Company which must be fulfilled or satisfied by the selected employee prior to his eligibility for the Award. Performance period refers to the period of a participant employment with the Group which is used to assess the selected employee's work performance for the purpose of determining the grant of the selected employee's award.

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

(ii) Share award scheme by the Company (Cont'd)

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees after rendering services for certain period. Each employee needs to render the agreed period of service in order to be entitled to the shares granted.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB4,283,000 for the year ended 31 December 2020 (2019: approximately RMB10,562,000) in relation to share awards.

Movements in the share awards granted during the years ended 31 December 2020 and 2019 are as follows:

**Year ended 31 December 2020**

| Name of category of participant | Date of grant | Outstanding at 1 January 2020 | Granted during year | Awards vested during year | Forfeited during year | Outstanding at 31 December 2020 |
|---|---|---|---|---|---|---|
| Other employees | 19 April 2018 | 676,800 | - | (127,430) | (209,050) | 340,320 |
| Director | 19 April 2018 | 654,480 | - | (190,890) | (27,270) | 436,320 |
| Director | 13 January 2020 | - | 120,000 | (120,000) | - | - |
| | | 1,331,280 | 120,000 | (438,320) | (236,320) | 776,640 |

Year ended 31 December 2019

| Name of category of participant | Date of grant | Outstanding at 1 January 2019 | Granted during year | Awards vested during year | Forfeited during year | Outstanding at 31 December 2019 |
|---|---|---|---|---|---|---|
| Other employees | 19 April 2018 | 1,106,880 | – | (188,260) | (241,820) | 676,800 |
| Director | 19 April 2018 | 872,640 | – | (199,980) | (18,180) | 654,480 |
| Director | 23 April 2019 | – | 120,000 | (120,000) | – | – |
| | | 1,979,520 | 120,000 | (508,240) | (260,000) | 1,331,280 |

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

(ii) Share award scheme by the Company (Cont'd)

Among the Award granted on 19 April 2018, 318,320 share awards were vested during the year ended 31 December 2020 (2019: 388,240 share awards). 388,320 and 388,320 share awards will be vested on 30 April 2021 and 30 April 2022, respectively. 236,320 share awards were forfeited during the year ended 31 December 2020.

Among the Award granted on 23 April 2019, 120,000 share awards were granted and vested during the year ended 31 December 2019.

Among the Award granted on 13 January 2020, 120,000 share awards were granted and vested during the year ended 31 December 2020.

(iii) Share awarded by a subsidiary of the Company

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

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

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

(iii) Share awarded by a subsidiary of the Company (Cont'd)

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

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

Best Assistant has granted 80,000 share awards to a selected participant, 16,000, 24,000 and 40,000 share awards were vested and released on 1 July 2017, 1 July 2018 and 1 July 2019, respectively.

Among the share awards granted by Best Assistant on 1 July 2018, 600,000 share awards were granted and 120,000, 120,000 and 120,000 share awards were vested on 1 July 2018, 1 July 2019 and 1 July 2020, respectively. 120,000 and 120,000 share awards will be vested on 1 July 2021 and 1 July 2022.

Among the share awards granted by Best Assistant on 1 July 2019, 400,000 share awards were granted and 80,000 and 80,000 share awards were vested on 1 July 2019 and 1 July 2020, respectively. 80,000, 80,000 and 80,000 share awards will be vested on 1 July 2021, 1 July 2022 and 1 July 2023.

Fair value of the share award at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant date. The Group recognised the total expenses of approximately RMB82,000 for the year ended 31 December 2020 (2019: RMB138,000) in relation to the share awards.

## 44. ACQUISITIONS OF SUBSIDIARIES

Acquisition of 成都掌沃無限科技有限公司("成都掌沃")

On 31 December 2019, the Group entered into an agreement with independent third parties to acquire 52.65% equity interests of 成都掌沃 with consideration of RMB25,800,000. 成都掌沃 is engaged in development of online and mobile games in the PRC and was acquired with the objective of expanding the Group's business in the PRC. The transaction was completed on 8 May 2020. The acquisition has been accounted for as acquisition of business using the acquisition method.

*Consideration transferred*

| | RMB'000 |
|---|---|
| Consideration paid | 11,531 |
| Other payable | 14,269 |
| Total | 25,800 |

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Equipment | 34 |
| Intangible assets | 27,598 |
| **Current assets** | |
| Trade receivables | 670 |
| Other receivable, prepayment and deposit | 733 |
| Bank balances | 6,394 |
| **Current liabilities** | |
| Other payables and accruals | (14,556) |
| Borrowing from a shareholder | (3,500) |
| **Non-current liability** | |
| Deferred tax liability | (4,133) |
| Net assets acquired | 13,240 |

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 成都掌沃 (Cont'd)

The fair values of the above identifiable assets and liabilities acquired are based on estimation used by the management of the Group with reference to valuation carried out by an independent professional valuer. Key assumptions and estimation used by the management included terminal value, discount rates and growth rates in the preparation of the discounted cash flows.

The fair values of trade receivables and other receivables are RMB670,000 and RMB733,000 respectively, which are also the gross contractual amounts of these receivables acquired. The best estimate at acquisition date of the contractual cash flows expected to be collected was the then entire outstanding amounts.

*Non-controlling interests*

The non-controlling interest (47.35%) in 成都掌沃 recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of identifiable net assets of 成都掌沃 and amounted to RMB6,270,000.

*Goodwill arising on acquisition of 成都掌沃*

| | RMB'000 |
|---|---|
| Consideration transferred | 25,800 |
| Add: Non-controlling interests | 6,270 |
| Less: Fair value of identifiable net assets acquired | (13,240) |
| Goodwill arising on acquisition | 18,830 |

Goodwill arose on the acquisition of 成都掌沃 because the acquisition included the assembled workforce of 成都掌沃. This benefit could not be separately recognised from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 成都掌沃 (Cont'd)

*Net cash outflow on acquisition of 成都掌沃*

| | RMB'000 |
|---|---|
| Consideration paid in cash | 11,531 |
| Less: Cash and cash equivalent balances acquired | (6,394) |
| | 5,137 |

*Impact of acquisition on the results of the Group*

Included in the profit for the year ended 31 December 2020 was the loss of RMB788,000 attributable to the additional business generated by 成都掌沃. Revenue for the year ended 31 December 2020 attributable to the additional business generated by 成都掌沃 approximated RMB10,114,000.

Had the acquisition been completed on 1 January 2020, revenue for the year ended 31 December 2020 of the Group would have been RMB6,138,114,000, and the profit for the year ended 31 December 2020 would have been RMB913,748,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had 成都掌沃 been acquired at the beginning of the year, the directors of the Company calculated depreciation and amortisation of equipment based on the recognised amounts of equipment at the date of acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 101 Education Group

Before the acquisition, Best Assistant, an indirect non-wholly owned subsidiary of the Company, held 49% equity interests in 101 Education Group. During the year ended 31 December 2020, Best Assistant entered into agreements with the existing shareholders of 101 Cayman to acquire the remaining 51% equity interests of 101 Cayman, with the objective of expanding the Group's education business, with aggregate consideration of USD566,000 (equivalent to approximately RMB3,796,000). The consideration is settled by cash of USD566,000 (equivalent to approximately RMB3,796,000) and 10,810,741 ordinary shares of Best Assistant with fair value of USDNil (equivalent to approximately RMBNil). The transaction was completed on 2 November 2020. 101 Education Group is engaged in provision of online education and related application business. The acquisition has been accounted for as acquisition of business using the acquisition method.

*Consideration transferred*

| | RMB'000 |
|---|---|
| Cash | 3,796 |
| Issue of 10,810,741 ordinary shares of Best Assistant | – |
| | 3,796 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 101 Education Group (Cont'd)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Equipment | 27 |
| **Current assets** | |
| Inventories | 3,561 |
| Other receivable, prepayment and deposit | 3,620 |
| Bank balances | 14,733 |
| **Current liabilities** | |
| Trade payables | (7) |
| Other payables and accruals | (1,698) |
| Net assets acquired | 20,236 |

The fair values of other receivables is RMB3,614,000, which is also the gross contractual amount of the receivables acquired. The best estimate at acquisition date of the contractual cash flows expected to be collected was the then entire outstanding amounts.

*Bargain purchase gain on acquisition of 101 Education Group*

| | RMB'000 |
|---|---|
| Consideration transferred | 3,796 |
| Add: Interests in associates | 9,916 |
| Less: Fair value of identifiable net assets acquired | (20,236) |
| Bargain purchase gain on acquisition | (6,524) |

Bargain purchase gain on acquisition of 101 Education Group is recognised in profit or loss for the year. The Group becoming the new controlling shareholder of 101 Education Group was expected to strengthen its capital base, meet its working capital requirements and facilitate its future business development and expansion. In the opinion of the directors of the Company, the above are the key factors leading to the recognition of the bargain purchase gain.

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 101 Education Group (Cont'd)

*Net cash inflow on acquisition of 101 Education Group*

| | RMB'000 |
|---|---|
| Consideration paid in cash equivalent | 3,796 |
| Less: Cash and cash equivalent balances acquired | (14,733) |
| | (10,937) |

*Impact of acquisition on the results of the Group*

Included in the profit for the year ended 31 December 2020 was the loss of RMB89,000 attributable to the additional business generated by 101 Education Group. Revenue for the year ended 31 December 2020 attributable to the additional business generated by 101 Education Group approximated RMB264,000.

Had the acquisition been completed on 1 January 2020, revenue for the year ended 31 December 2020 of the Group would have been RMB6,137,829,000, and the profit for the year ended 31 December 2020 would have been RMB908,626,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had 101 Education Group been acquired at the beginning of the year, the directors of the Company calculated depreciation and amortisation of equipment based on the recognised amounts of equipment at the date of acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 福建一零一教育

Before the acquisition, the Group held 49% equity interests of 福建一零一教育. On 21 February 2020, the Group entered into an agreement with an existing shareholder to acquire 45% equity interests of 福建一零一教育 with cash consideration of RMB14,000. Upon the completion of the acquisition, 福建一零一教育 becomes a subsidiary of the Group with 6% non-controlling interests. 福建一零一教育 is engaged in provision of online education and related application business and was acquired with the objective to expand the Group's education business. The transaction was completed on 28 December 2020. The acquisition has been accounted for as acquisition of business using the acquisition method.

*Consideration transferred*

| | RMB'000 |
|---|---|
| Consideration paid | 14 |

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current asset** | |
| Equipment | 78 |
| **Current assets** | |
| Inventories | 60 |
| Loan receivables | 7 |
| Other receivable, prepayment and deposit | 826 |
| Bank balances | 1,599 |
| **Current liabilities** | |
| Other payables and accruals | (2,911) |
| Net liabilities acquired | (341) |

The fair values of other receivables is RMB826,000, which is also the gross contractual amounts of these receivables acquired. The best estimate at acquisition date of the contractual cash flows expected to be collected was the then entire outstanding amounts.

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 福建一零一教育 (Cont'd)

*Non-controlling interests*

The non-controlling interest (6.0%) in 福建一零一教育 recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of identifiable net liabilities of 福建一零一教育 and amounted to RMB20,000.

*Goodwill arising on acquisition of 福建一零一教育*

| | RMB'000 |
|---|---|
| Consideration transferred | 14 |
| Less: Non-controlling interests | (20) |
| Fair value of previously held equity interest in 福建一零一教育 | – |
| Add: Fair value of identifiable net liabilities acquired | 341 |
| Goodwill arising on acquisition | 335 |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

*Net cash inflow on acquisition of 福建一零一教育*

| | RMB'000 |
|---|---|
| Consideration paid in cash | 14 |
| Less: Cash and cash equivalent balances acquired | (1,599) |
| | (1,585) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 44. ACQUISITIONS OF SUBSIDIARIES (Cont'd)

Acquisition of 福建一零一教育 (Cont'd)

*Impact of acquisition on the results of the Group*

No loss or profit from 福建一零一教育 was included in the profit for the year ended 31 December 2020. No revenue from 福建一零一教育 was generated for the year ended 31 December 2020 and therefore no revenue from 福建一零一教育 was included in the Group's revenue since the acquisition.

Had the acquisition been completed on 1 January 2020, profit for the year ended 31 December 2020 of the Group would have been RMB917,592,000. The proforma information is for illustrative purpose only and is not necessarily an indication of results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had 福建一零一教育 been acquired at the beginning of the year, the directors of the Company calculated depreciation and amortisation of equipment based on the recognised amounts of equipment at the date of acquisition.

## 45. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

Acquisition of assets through acquisition of 北京網中軟件科技有限公司("北京網中")

During the year ended 31 December 2020, the Group entered into an agreement with independent third parties to acquire 90% equity interests of 北京網中 with cash consideration of RMB50,000,000. The transaction was completed on 8 January 2020.

The transaction is accounted for as acquisition of assets by the Group as it does not constitute an acquisition of business because no input and a substantive process that together significantly contribute to the ability to create outputs had been acquired by the Group.

## 45. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of assets through acquisition of 北京網中 (Cont'd)

*Consideration transferred*

| | RMB'000 |
|---|---|
| Consideration paid | 43,000 |
| Other payable | 7,000 |
| Total | 50,000 |

Asset and non-controlling interest recognised at the date of acquisition are as follows:

| | RMB'000 |
|---|---|
| **Non-current asset** | |
| Intangible assets | 55,556 |
| **Current asset** | |
| Other receivable, prepayment and deposit | 950 |
| **Non-controlling interests** | (6,506) |
| | 50,000 |

Intangible assets represent the acquired software copyright for producing office software from the acquisition of 北京網中.

*Cash outflow arising in the acquisition of 北京網中*

| | RMB'000 |
|---|---|
| Consideration paid in cash | 43,000 |

## 46. DISPOSAL OF SUBSIDIARIES

(i) Disposal of 北京企航

During the year ended 31 December 2019, the Group entered into a sale agreement to dispose of its entire equity interest in 北京企航, a subsidiary of the Company, to a director of the Company with consideration of RMB400,000. The purpose of the disposal is to concentrate on the Group's core businesses. The disposal was completed on 20 April 2019 and the Group lost control of 北京企航 on the same day. Upon the completion of the disposal, 北京企航 ceased to be a subsidiary of the Company and became a related party of the Group.

| | RMB'000 |
|---|---|
| **Consideration receivable** | 400 |
| **Analysis of assets and liabilities over which control was lost** | |
| Property, plant and equipment | 57 |
| Other receivables | 23 |
| Amount due from a fellow subsidiary | 7 |
| Bank balances and cash | 383 |
| Amount due to a fellow subsidiary | (9) |
| Amount due to an immediate holding company | (3) |
| Net assets disposed of | 458 |
| **Loss on disposal of a subsidiary** | |
| Amount due from a director | 400 |
| Net assets disposed of | (458) |
| Loss on disposal | (58) |
| **Cash outflow arising on disposal** | |
| Bank balances and cash disposed of | (383) |

## 46. DISPOSAL OF SUBSIDIARIES (Cont'd)

(ii) Disposal of 廈門易用軟件技術有限公司 ("廈門易用")

During the year ended 31 December 2019, the Group entered into a sale agreement to dispose of its entire equity interest in 廈門易用 to independent third parties with consideration of RMB763,000. The purpose of the disposal is to concentrate on the Group's core businesses. The disposal was completed on 29 August 2019, and the Group lost control of 廈門易用 on the same day.

| | RMB'000 |
|---|---|
| **Consideration receivable** | 763 |
| **Analysis of assets and liabilities over which control was lost** | |
| Goodwill | 8 |
| Property, plant and equipment | 1 |
| Trade receivables | 69 |
| Other receivables, prepayments and deposits | 27 |
| Bank balances and cash | 2,048 |
| Other payables | (15) |
| Contract liabilities | (69) |
| Net assets disposed of | 2,069 |
| **Loss on disposal of a subsidiary** | |
| Other receivables | 763 |
| Net assets disposed of | (2,069) |
| Non-controlling interests | 745 |
| Loss on disposal | (561) |
| **Cash outflow arising on disposal** | |
| Bank balances and cash disposed of | (2,048) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 47. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | 167,871 | 167,871 |
| Amounts due from subsidiaries | 1,477,469 | 1,477,469 |
| | 1,645,340 | 1,645,340 |
| **Current assets** | | |
| Other receivables and prepayment | 66,220 | 715 |
| Amounts due from subsidiaries | 1,050,802 | 146,115 |
| Bank balances | 32,046 | 17,943 |
| | 1,149,068 | 164,773 |
| **Current liabilities** | | |
| Other payables | 46,293 | 32,794 |
| Amounts due to subsidiaries | 1,894 | 1,894 |
| Derivative financial instruments | 40,894 | – |
| | 89,081 | 34,688 |
| **Net current assets** | 1,059,987 | 130,085 |
| **Net assets** | 2,705,327 | 1,775,425 |
| **Capital and reserves** | | |
| Share capital | 40,951 | 38,822 |
| Share premium and reserves | 2,664,376 | 1,736,603 |
| | 2,705,327 | 1,775,425 |

## 47. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

**Movement in the Company's reserves:**

| | Share premium RMB'000 | Capital redemption reserve RMB'000 | Other reserve RMB'000 | Dividend reserve RMB'000 | Treasury share reserve RMB'000 | Employee share-based compensation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 1,568,632 | 6,595 | (2,219) | 69,809 | (33,182) | 28,291 | 32,569 | 1,670,495 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 199,146 | 199,146 |
| Repurchase and cancellation of shares | (8,745) | 57 | – | – | – | – | (57) | (8,745) |
| Shares issued upon exercise of share options | 5,976 | – | – | – | – | (1,871) | – | 4,105 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | 11,409 | – | 11,409 |
| Awarded shares vested to employees | – | – | – | – | 7,341 | (8,796) | 1,455 | – |
| Final dividend for 2018 paid | – | – | – | (69,809) | – | – | – | (69,809) |
| Interim dividend for 2019 declared and paid | – | – | – | – | – | – | (69,998) | (69,998) |
| Final dividend for 2019 proposed | – | – | – | 118,824 | – | – | (118,824) | – |
| At 31 December 2019 | **1,565,863** | **6,652** | **(2,219)** | **118,824** | **(25,841)** | **29,033** | **44,291** | **1,736,603** |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **497,586** | **497,586** |
| Issue of new shares | **694,309** | **–** | **–** | **–** | **–** | **–** | **–** | **694,309** |
| Repurchase and cancellation of shares | **(43,095)** | **213** | **–** | **–** | **–** | **–** | **(213)** | **(43,095)** |
| Shares issued upon exercise of share options | **2,665** | **–** | **–** | **–** | **–** | **(665)** | **–** | **2,000** |
| Recognition of equity-settled share-based payments | **–** | **–** | **–** | **–** | **–** | **35,109** | **–** | **35,109** |
| Awarded shares forfeited | **–** | **–** | **–** | **–** | **–** | **(3,066)** | **–** | **(3,066)** |
| Awarded shares vested to employees | **–** | **–** | **–** | **–** | **6,706** | **(7,580)** | **874** | **–** |
| Final dividend for 2019 paid | **–** | **–** | **–** | **(118,824)** | **–** | **–** | **(7,466)** | **(126,290)** |
| Interim dividend for 2020 declared and paid | **–** | **–** | **–** | **–** | **–** | **–** | **(128,780)** | **(128,780)** |
| Final dividend for 2020 proposed | **–** | **–** | **–** | **118,044** | **–** | **–** | **(118,044)** | **–** |
| At 31 December 2020 | **2,219,742** | **6,865** | **(2,219)** | **118,044** | **(19,135)** | **52,831** | **288,248** | **2,664,376** |

## 48. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. The Group will balance its overall capital structure through the payment of dividends as well as issue new shares or return capital to owners.

## 49. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Financial assets** | | |
| Financial assets at amortised cost | **5,034,301** | 3,134,325 |
| Equity instruments at FVTOCI | **10,808** | 4,514 |
| Financial assets at FVTPL | **286,975** | 1,492 |
| | **5,332,084** | 3,140,331 |
| **Financial liabilities** | | |
| Amortised cost | **1,953,053** | 943,776 |
| Convertible preferred shares at FVTPL | **–** | – |
| Derivative financial instruments | **40,894** | – |
| | **1,993,947** | 943,776 |
| **Lease liabilities** | **172,677** | 163,406 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, financial assets at FVTPL, amount due from a related company, amounts due from associates, amounts due from joint ventures, amount due from a director, loan receivables, trade receivables, contract assets, other receivables, refundable rental deposits, restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months, bank balances and cash, trade and other payables, amount due to a related company, amounts due to associates, amount due to a joint venture, bank borrowings, lease liabilities, convertible preferred shares, derivative financial instruments and convertible and exchangeable bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

*Market risk*

*(i) Currency risk*

The Group operates mainly in the PRC, the USA and the UK. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB, USD and Great Britain Pound ("GBP"). However, the Group also has operations in Hong Kong, Australia and Europe and the business transactions conducted in these areas during the year were mainly denominated and settled in HKD, Australian dollar ("AUD") and European dollar ("EURO") 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Market risk (Cont'd)*

*(i) Currency risk (Cont'd)*

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities (including loan receivables, trade receivables, other receivables, restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months, bank balances and cash, trade and other payables, lease liabilities and bank borrowings) at the end of the reporting period are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| HKD | **105,064** | 26,767 | **65,713** | 14,676 |
| USD | **1,350,445** | 667,202 | **1,124,227** | 141,274 |
| GBP | **282** | 208 | **–** | 4,710 |
| AUD | **2,091** | 1,501 | **–** | – |
| EURO | **21,282** | 46,464 | **1,184** | 1,293 |

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD, USD, GBP, AUD or EURO. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against relevant foreign currencies and vice versa. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit/ loss and vice versa.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Market risk (Cont'd)*

*(i) Currency risk (Cont'd)*

Sensitivity analysis (Cont'd)

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Post-tax profit/loss | | |
| HKD | **(1,476)** | (453) |
| USD | **(8,483)** | (19,722) |
| GBP | **(11)** | 169 |
| AUD | **(78)** | (56) |
| EURO | **(754)** | (1,694) |

*(ii) Interest rate risk*

The interest income is derived from the Group's trade receivables, restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances that carry interest at the respective banking deposit rate of the banks located in the PRC and Hong Kong and loan receivables.

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables (Note 21), lease liabilities (Note 34), convertible and exchangeable bonds (Note 40) and bank borrowings (Note 41).

The Group is exposed to cash flow interest rate risk in relation to variable-rate restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months and bank balances (Note 33), variable-rate loan receivables (Note 21) and variable-rate bank borrowings (Note 41) carried at prevailing banking deposit rate. The cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR and benchmark interest rate of the PBC arising from the Group's bank borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Market risk (Cont'd)*

*(ii) Interest rate risk (Cont'd)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings at the end of the reporting period. The analysis is prepared assuming the variable-rate borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2019: 50 basis points) increase or decrease in HIBOR, LIBOR and benchmark interest rate of the PBC is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2020 would decrease/increase by RMB1,024,000 (2019: RMB1,527,000).

*Credit risk and impairment assessment*

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk of trade receivables, contract assets, other receivables, refundable rental deposits, amount due from a director and loan receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix, and trade receivables and contract assets which are credit-impaired are assessed for ECL individually.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Credit risk and impairment assessment (Cont'd)*

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

The Group regularly monitors the business performance of the associates, joint ventures and related companies. 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 12m ECL. For the years ended 31 December 2020 and 2019, the Group assessed the ECL for these balances were insignificant and thus no loss allowance was recognised.

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

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

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Credit risk and impairment assessment (Cont'd)*

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables/ contract assets | Other financial assets/ other items |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL - not credit-impaired | 12m ECL |
| Watch list | Debtor frequently repays after due dates but usually settle in full | Lifetime ECL - not credit-impaired | 12m ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL - not credit-impaired | Lifetime ECL - not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL - credit-impaired | Lifetime ECL - credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

The tables below detail the credit risk exposures of the Group's trade receivables, other receivables, loan receivables, amount due from a related company, amount due from a director, amounts due from associates, amounts due from joint ventures, restricted bank balances, pledged bank deposits, bank deposit with original maturity over three months, bank balances and contract assets which are subject to ECL assessment:

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Financial assets at amortised cost*

| | Notes | External credit rating | Internal credit rating | 12m or lifetime ECL | 2020 Gross carrying amount | | 2019 Gross carrying amount | |
|---|---|---|---|---|---|---|---|---|
| | | | | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Loan receivables | 21 | N/A | (Note 1) | 12m ECL | | 32,463 | | 36,927 |
| Trade receivables | 25 | N/A | (Note 2) | Lifetime ECL (provision matrix) | 536,455 | | 708,250 | |
| | | | Loss | Lifetime ECL (credit-impaired) | 17,948 | 554,403 | 12,690 | 720,940 |
| Other receivables | 28 | N/A | (Note 1) | 12m ECL | | 166,349 | | 117,735 |
| Contract assets | 29 | N/A | (Note 2) | Lifetime ECL (provision matrix) | | 12,236 | | 18,333 |
| Amount due from a related company | 30 | N/A | (Note 1) | 12m ECL | | 47 | | 849 |
| Amounts due from associates | 31 | N/A | (Note 1) | 12m ECL | | - | | 2,262 |
| Amounts due from joint ventures | 31 | N/A | (Note 1) | 12m ECL | | 974 | | 279 |
| Amount due from a director | 31 | N/A | (Note 1) | 12m ECL | | - | | 400 |
| Restricted bank balances | 33 | IG* | N/A | 12m ECL | | 15,611 | | 15,089 |
| Pledged bank deposits | 33 | IG* | N/A | 12m ECL | | 146,073 | | 145,787 |
| Bank deposit with original maturity over three months | 33 | IG* | N/A | 12m ECL | | 33,021 | | – |
| Bank balances | 33 | IG* | N/A | 12m ECL | | 4,114,333 | | 2,125,546 |

* Investment Grade – The Standard & Poor's rating of the Group's significant bank accounts.

Notes:

1. In determining the ECL for loan receivables, other receivables, amount due from a related company, amounts due from associates, amounts due from joint ventures and amount due from a director, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate. The Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in these Group's outstanding balances is insignificant. Accordingly, no loss allowance on ECL was provided for these assets.

2. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired debtors, the Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Financial assets at amortised cost (Cont'd)*

*Provision matrix for trade receivables and contract assets – internal credit rating*

As part of the Group's credit risk management, the Group applies internal credit rating for its customers on trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2020 within lifetime ECL. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2020 within lifetime ECL. Trade receivables with credit-impaired with gross carrying amount of RMB17,948,000 (2019: RMB12,690,000) as at 31 December 2020 were assessed individually. As disclosed in Note 25, out of the past due balances, RMB59,658,000 (2019: RMB111,250,000) has been past due 90 days or more and is not considered as credit-impaired and considered as recoverable due to long term and on-going relationship with good repayment record from these customers based on historical experience.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Financial assets at amortised cost (Cont'd)*

*Provision matrix for trade receivables and contract assets – internal credit rating (Cont'd)*

**Gross carrying amount**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Average loss rate | Trade receivables RMB'000 | Average loss rate | Trade receivables RMB'000 |
| Low risk | 0.14% | 418,144 | 0.07% | 261,862 |
| Watch list | 0.50% | 69,512 | 1.01% | 335,138 |
| Doubtful | 20.83% | 48,799 | 13.78% | 111,250 |
| | | 536,455 | | 708,250 |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Average loss rate | Contract assets RMB'000 | Average loss rate | Contract assets RMB'000 |
| Low risk | 1.07% | 12,236 | 1.01% | 18,333 |
| Watch list | – | – | – | – |
| | | 12,236 | | 18,333 |

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Financial assets at amortised cost (Cont'd)*

The management of the Group assessed the expected loss on trade receivables by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment both the current as well as the forecast direction of conditions at the reporting date. The directors of the Company are of the opinion that trade receivables amounted to RMB536,455,000 (2019: RMB708,250,000) are not credit-impaired, as for they are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers. Accordingly, RMB11,102,000 (2019: RMB18,890,000) loss allowance on ECL for trade receivables based on provision matrix is recognised as at 31 December 2020. However, RMB17,948,000 (2019: RMB12,690,000) of the balance of trade receivables are considered as credit-impaired as for there is evidence indicating the asset is credit-impaired as at 31 December 2020.

No loss allowance on ECL for contract assets based on provision matrix is recognised during the years ended 31 December 2020 and 2019 as the amount is considered as insignificant.

During the year ended 31 December 2020, the Group reversed RMB7,680,000 (2019: provided RMB18,890,000) impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of RMB6,078,000 (2019: RMB7,601,000) were made on credit-impaired debtors.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Financial assets at amortised cost (Cont'd)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables.

| | Lifetime ECL (not credit-impaired) | Lifetime ECL (credit-impaired) | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2019 | – | 18,436 | 18,436 |
| Impairment losses recognised, net of reversal | 18,890 | 7,601 | 26,491 |
| Impairment written off | – | (13,617) | (13,617) |
| Exchange adjustments | – | 270 | 270 |
| As at 31 December 2019 | **18,890** | **12,690** | **31,580** |
| Impairment losses recognised, net of reversal | **(7,680)** | **6,078** | **(1,602)** |
| Impairment written off | **–** | **(98)** | **(98)** |
| Acquisition of a subsidiary | **35** | **–** | **35** |
| Exchange gain | **–** | **(48)** | **(48)** |
| Exchange adjustments | **(143)** | **(674)** | **(817)** |
| As at 31 December 2020 | **11,102** | **17,948** | **29,050** |

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, or when the trade receivables are over two years past due, whichever occurs earlier.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*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.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating-rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

*Liquidity tables*

| | Weighted average interest rate % | On demand or less than 1 year RMB'000 | Over 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Trade and other payables | - | 611,091 | - | 611,091 | 611,091 |
| Amounts due to associates | - | 3,484 | - | 3,484 | 3,484 |
| Amount due to a joint venture | - | 593 | - | 593 | 593 |
| Bank borrowings | | | | | |
| – variable rate | 3.96 | 120,447 | 167,412 | 287,859 | 273,099 |
| – fixed rate | 2.48 | 38,648 | 36,026 | 74,674 | 72,571 |
| Lease liabilities | 5.28 | 64,143 | 125,208 | 189,351 | 172,677 |
| Convertible and exchangeable bonds – debt component | 16.62 | 15,351 | 1,627,449 | 1,642,800 | 992,116 |
| Dividend payable to non-controlling interests | - | 99 | - | 99 | 99 |
| | | 853,856 | 1,956,095 | 2,809,951 | 2,125,730 |

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Liquidity risk (Cont'd)*

*Liquidity tables (Cont'd)*

| | Weighted average interest rate % | On demand or less than 1 year RMB'000 | Over 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|
| 2019 | | | | | |
| Trade and other payables | – | 525,981 | 10,230 | 536,211 | 536,211 |
| Amount due to a related company | – | 105 | – | 105 | 105 |
| Amounts due to associates | – | 257 | – | 257 | 257 |
| Bank borrowings | | | | | |
| – variable rate | 4.54 | 168,949 | 270,129 | 439,078 | 407,203 |
| Lease liabilities | 5.49 | 61,698 | 119,981 | 181,679 | 163,406 |
| | | 756,990 | 400,340 | 1,157,330 | 1,107,182 |

Bank borrowings with a repayable on demand clause are included in the "on demand or less than 1 year" band in the above maturity analysis. As at 31 December 2020, the aggregate carrying amounts of these bank borrowings amounted to RMB32,823,000 (2019: RMB28,665,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate payment. The directors of the Company believe that such bank borrowings will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis – Bank borrowings with a repayable on demand clause based on scheduled repayments.

| | Less than 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|
| 31 December 2020 | **32,863** | **32,863** | **32,823** |
| 31 December 2019 | 28,731 | 28,731 | 28,665 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Fair value*

*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 following table gives information about how 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Fair value (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 31 December 2020 RMB'000 | Fair value as at 31 December 2019 RMB'000 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Equity instrument at FVTOCI | **10,808** | 4,514 | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| Financial assets at FVTPL – Equity-linked warrants | **3,723** | 1,492 | Level 3 | Valuation of financial assets at FVTPL: Binomial valuation model using key input: expected volatility. | Volatility 160.71% (2019: 150.14%) is estimated based on the historical volatilities of the comparable companies. | The higher the expected volatility, the higher the fair value. |
| Financial assets at FVTPL – Unlisted funds | **281,194** | N/A | Level 2 | Price provided by the financial institution with reference to underlying investment portfolios which have observable quoted price in active markets. | N/A | N/A |
| Financial assets at FVTPL – Others | **2,058** | N/A | Level 2 | Price provided by the financial institution with reference to underlying investment portfolios which have observable quoted price in active markets. | N/A | N/A |
| Derivative financial instruments – Convertible and exchangeable option | **-** | N/A | Level 3 | Binomial valuation model using key input: expected volatility. | Volatility 54.68% is estimated based on the historical volatilities of the comparable companies. | The higher the expected volatility, the higher the fair value. |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Fair value (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 31 December 2020 RMB'000 | Fair value as at 31 December 2019 RMB'000 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Derivative financial instruments – Unlisted warrants | 40,894 | N/A | Level 3 | Binomial valuation model using key input: expected volatility. | Volatility 45.13% is estimated based on the historical volatilities of the comparable companies. | The higher the expected volatility, the higher the fair value. |
| Convertible preferred shares | - | – | Level 3 | Valuation of the principal cash flow: Income approach - In this approach, discount cash flow method was used to capture the present value of the expected future economic benefits to be derived. | Discount rate that reflected the expected rate of return ranging from 14.69% to 22.48% (2019: 14.25% to 22.61%). | The higher the discount rate, the lower the fair value. |

There is no transfer between Level 1, Level 2 and Level 3 during both years.

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

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Fair value (Cont'd)*

*Reconciliation of Level 3 fair value measurements*

Reconciliation of Level 3 fair value measurements of financial assets

| | **Financial assets at FVTPL** |
|---|---|
| | RMB'000 |
| At 1 January 2019 | – |
| Additions | 1,280 |
| Fair value changes | 219 |
| Exchange adjustments | (7) |
| At 31 December 2019 | **1,492** |
| Fair value changes | **2,424** |
| Exchange adjustments | **(193)** |
| At 31 December 2020 | **3,723** |

Of the total gains or losses for the year included in profit or loss, RMB2,424,000 (2019: RMB219,000) relates to financial assets designated at FVTPL held at the end of the current reporting period. Fair value gains or losses on financial assets designated at FVTPL are included in 'Fair value change on financial assets at fair value through profit or loss'.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Fair value (Cont'd)*

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

Reconciliation of Level 3 fair value measurements of financial liabilities

| | **Derivative financial instruments** | **Convertible preferred shares** |
|---|---|---|
| | RMB'000 | RMB'000 |
| At 1 January 2019 | – | 108,904 |
| Fair value changes | – | (110,697) |
| Exchange adjustments | – | 1,793 |
| At 31 December 2019 | – | – |
| At 1 January 2020 | **–** | **–** |
| Issue of unlisted warrants | **86,795** | **–** |
| Fair value changes | **(43,323)** | **–** |
| Exchange adjustments | **(2,578)** | **–** |
| At 31 December 2020 | **40,894** | **–** |

## 50. PLEDGE OF OR RESTRICTIONS ON ASSETS

At the end of the reporting period, the carrying amounts of the assets pledged by the Group to secure the bank borrowings granted to the Group as set out in Notes 33 and 41 are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **353,372** | 375,372 |
| Right-of-use assets | **44,710** | 45,855 |
| Pledged bank deposits | **146,073** | 145,787 |
| | **544,155** | 567,014 |

Restrictions on assets

In addition, lease liabilities of RMB172,677,000 (2019: RMB163,406,000) are recognised with related right-of-use assets of RMB410,301,000 (2019: RMB421,395,000) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

## 51. RETIREMENT BENEFITS PLANS

Defined contribution plan

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,500 per person per month to the scheme, whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2020 made by the Group amounted to RMB144,038,000 (2019: RMB154,512,000).

## 52. RELATED PARTY TRANSACTIONS

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

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

| Nature of transactions | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| After-sales service fee paid to Fuzhou Tianliang | – | 4,690 |
| Technical service fee paid to Fuzhou Tianliang | – | 1,005 |
| Education equipment and related goods purchased from 福建創思教育 | 189 | 1,207 |
| Technical services fee paid to 北京企航 | 721 | 66 |
| Agent services fee paid to 北京企航 | – | 630 |
| Goods sold to 北京企航 | – | (8) |
| Goods sold to 國騰 | (217) | (313) |
| Goods purchased from 國騰 | 16 | 33 |
| Service cost paid to 國騰 | 1,047 | – |
| Service revenue from 國騰 | (90) | – |
| Interest income from 福建一零一教育 | (12) | – |
| Goods sold to 昆明網龍華漁 | (132) | – |
| Goods sold to 雲啟智慧 | (2,357) | – |
| Interest receivable/received on loan advanced to key management | (392) | (441) |

Included in loan receivables as at 31 December 2020 was loan advanced to key management of approximately RMB7,629,000 (2019: RMB8,707,000) and the amounts are unsecured and repayable in whole on 14 January 2020, 30 April 2022 and 31 August 2022 and carries interest rate of 4.15% to 5.00% (2019: 4.75% to 5.125%) per annum.

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

Compensation of key management personnel

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

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries, allowances and other short-term employee benefits | **61,570** | 53,398 |
| Contribution to retirement benefits schemes | **544** | 509 |
| Share-based payments expense | **27,511** | 11,248 |
| | **89,625** | 65,155 |

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

## 53. CAPITAL COMMITMENTS

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

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Capital expenditure in respect of the capital injection in a joint venture | **606,000** | 582,000 |
| Capital expenditure in respect of the acquisition of equity interests in a company | **–** | 50,000 |
| Capital expenditure in respect of the acquisition of property, plant and equipment | **285,450** | 371,681 |
| Capital expenditure in respect of properties under development | **610,269** | 124,880 |
| | **1,501,719** | 1,128,561 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 54. OPERATING LEASE

The Group as lessor

Property rental income earned during the year was approximately RMB5,349,000 (2019: RMB10,229,000). The property is expected to generate rental yields of 5.7% (2019: 10.8%) per annum on an ongoing basis. The property held has committed tenants for the 0.92 to 4.25 years.

The Group had contracted with tenant for the following future minimum lease payments:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within one year | 3,193 | – |
| In the second year | 3,218 | – |
| In the third year | 3,218 | – |
| In the fourth year | 3,044 | – |
| In the fifth year | 538 | – |
| | 13,211 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 55. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Convertible and exchangeable bonds RMB'000 | Bank borrowings RMB'000 | Dividend payables RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2020 | - | 407,203 | - | 163,406 | 570,609 |
| Financing cash flows | 948,093 | (52,618) | (255,070) | (62,815) | 577,590 |
| New leases | - | - | - | 75,059 | 75,059 |
| Interest paid | (25,641) | - | - | (8,966) | (34,607) |
| Non-cash changes: | | | | | |
| Exchange adjustments | (60,201) | (13,847) | - | (2,973) | (77,021) |
| Finance costs recognised | 129,865 | - | - | 8,966 | 138,831 |
| Dividends declared | - | - | 255,070 | - | 255,070 |
| Dividend payable to non-controlling interests of a subsidiary | - | - | 99 | - | 99 |
| Facility arrangement fee | - | 1,432 | - | - | 1,432 |
| Acquisition of a subsidiary | - | 3,500 | - | - | 3,500 |
| At 31 December 2020 | 992,116 | 345,670 | 99 | 172,677 | 1,510,562 |

## 55. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Cont'd)

| | Bank borrowings RMB'000 | Dividend payables RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2019 | 324,761 | – | 120,969 | 445,730 |
| Financing cash flows | 80,576 | (139,807) | (67,157) | (126,388) |
| New leases | – | – | 108,737 | 108,737 |
| Interest paid | – | – | (6,424) | (6,424) |
| Non-cash changes: | | | | |
| Exchange adjustments | 3,302 | – | 857 | 4,159 |
| Finance costs recognised | – | – | 6,424 | 6,424 |
| Dividends declared | – | 139,807 | – | 139,807 |
| Facility arrangement fee | (1,436) | – | – | (1,436) |
| At 31 December 2019 | 407,203 | – | 163,406 | 570,609 |

## 56. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2020 and 2019 are as follows:

| Name of subsidiaries | Place of incorporation/ establishment/ operations | Issued and fully paid up ordinary share/ registered capital | Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly | | indirectly | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2020 % | 2019 % | 2020 % | 2019 % | |
| NetDragon BVI | BVI | USD222,203.93 | 100 | 100 | - | – | Investment holding |
| NetDragon (Fujian)* | PRC | RMB10,100,000.00 | - | – | - | – | Operation of online games |
| TQ Digital # | PRC | RMB545,000,000.00 | - | – | 100 | 100 | Development of online games and licensing and servicing of the developed games |
| NetDragon Websoft Inc. | USA | USD600,000.00 | - | – | 100 | 100 | Provision of support services to the Group |
| NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司) | Hong Kong | HKD1.00 | - | – | 100 | 100 | Licensing and servicing of the developed games and provision for support services to the Group |
| Glory More Limited (展凱有限公司) | Hong Kong | HKD1.00 | - | – | 100 | 100 | Investment holding |
| TQ Online # | PRC | RMB620,000,000.00 | - | – | 100 | 100 | Development of online games and licensing and servicing of developed games |
| Cherrypicks Limited (創奇思有限公司) | Hong Kong | HKD150,000.00 | - | – | 92.2 | 92.2 | Mobile solution, products and marketing business |
| Cherrypicks Alpha Resources (創奇思科研有限公司) | Hong Kong | HKD10,000.00 | - | – | 100 | 100 | Development and provision of products in AR and computer vision with machine learning technology |
| Best Assistant | Cayman Islands | USD1,682,237.80 | - | – | 90.08 | 87.66 | Investment holding |
| Fujian Tianquan Education Technology Limited # (福建天泉教育科技有限公司) ("Fujian Tianquan") | PRC | RMB500,000,000.00 | - | – | 90.08 | 87.66 | Operation and development of online education business |
| Fujian Huayu * | PRC | RMB200,000,000.00 | - | – | - | – | Operation and development of online education business |
| Promethean | UK | GBP20,320,000.00 | - | – | 90.08 | 87.66 | Sale of education hardware and software products |
| 福建天景房地產開發有限公司^ | PRC | RMB10,000,000.00 | - | – | 100 | 100 | Property development |

## 56. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements entered into with the Ultimate Controlling Shareholders involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the Ultimate Controlling Shareholders who are the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in owners' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise members, all of whom have to be directors of TQ Digital and Fujian Tianquan, subsidiaries of the Company, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital and Fujian Tianquan to exercise all their voting rights in NetDragon (Fujian) and Fujian Huayu, including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group. Accordingly, the results of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

# Wholly foreign owned enterprise.

^ Limited liability company.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 56. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong, the UK, the USA and the PRC. The principal activities of these subsidiaries are summarised as follows:

| Principal activities | Principal place of business | Number of subsidiaries | |
|---|---|---|---|
| | | **2020** | 2019 |
| Investment holding | Hong Kong | **21** | 20 |
| Investment holding | UK | **2** | 2 |
| Investment holding | PRC | **1** | 1 |
| Investment holding | BVI | **1** | – |
| Operation of games | PRC | **1** | 1 |
| Development of online and mobile games | PRC | **2** | – |
| Development of software | PRC | **1** | – |
| Provision of support to the Group | PRC | **12** | 10 |
| Provision of support to the Group | Hong Kong | **1** | 1 |
| Provision of online education and related application business | PRC | **3** | – |
| Provision of online education and related application business | Hong Kong | **1** | – |
| Provision of mobile solution, products and marketing business to the Group | Hong Kong | **18** | 18 |
| Provision of mobile solution, products and marketing business to the Group | PRC | **2** | 2 |
| Provision of mobile solution,products and marketing business to the Group | Indonesia | **1** | 1 |
| Provision of education business to the Group | PRC | **15** | 14 |
| Provision of education business to the Group | Thailand | **1** | 1 |
| Provision of education business to the Group | Macau | **1** | 1 |
| Provision of education business to the Group | USA | **1** | 1 |
| Sale of education hardware and software products | UK | **1** | 2 |
| Sale of education hardware and software products | USA | **1** | 1 |
| Sale of education hardware and software products | Germany | **1** | 1 |
| Sale of education hardware and software products | France | **1** | 1 |
| Sale of education hardware and software products | PRC | **6** | 4 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 56. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

| Principal activities | Principal place of business | Number of subsidiaries 2020 | 2019 |
|---|---|---|---|
| Sale of education hardware and software products | India | 1 | 1 |
| Sale of education hardware and software products | Russia | 1 | 1 |
| Provision of AR and virtual reality services | Hong Kong | 1 | 1 |
| Developing, publishing and distributing multimedia educational gaming software and online content | USA | 3 | 3 |
| Developing, publishing and distributing multimedia educational gaming software and online content | India | 1 | 1 |
| Developing, publishing and distributing multimedia educational gaming software and online content | Canada | – | 1 |
| | | 102 | 90 |