



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

INTERIM REPORT

2023



CONTENT

01

2023

網龍網絡控股有限公司

NETDRAGON WEBSOFT HOLDINGS LIMITED

2 Management Discussion and Analysis

17 Other Information

32 Report on Review of Condensed Consolidated Financial Statements

CONTENT

02

- 34** Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 36** Condensed Consolidated Statement of Financial Position
- 38** Condensed Consolidated Statement of Changes in Equity

03

- 40** Condensed Consolidated Statement of Cash Flows
- 42** Notes to the Condensed Consolidated Financial Statements

TENT

MANAGEMENT DISCUSSION AND ANALYSIS

(1) FINANCIAL HIGHLIGHTS AND REVIEW

2023 First Half Financial Highlights

- Revenue was RMB3.7 billion, representing a 13% decrease YoY.
- Revenue from the gaming business was RMB1.9 billion, representing 52% of the Group's total revenue and an 8% increase YoY.
- Revenue from the education business was RMB1.7 billion, representing 47% of the Group's total revenue and a 29% decrease YoY.
- Gross profit was RMB2.3 billion, representing a 2% decrease YoY.
- Core segmental profit¹ from the gaming business was RMB1.1 billion, representing a 9% increase YoY.
- Core segmental loss¹ from the education business was RMB249 million, compared to RMB36 million in the same period last year. The increase is due to lower revenue and gross profits in the education segment, whereas our total education core segmental operating expenses were largely flat.
- Operating profit was RMB699 million, representing a 6% decrease YoY.
- Non-GAAP operating profit² was RMB692 million, representing a 19% decrease YoY.
- EBITDA was RMB917 million, representing a 5% increase YoY.
- Non-GAAP EBITDA² was RMB864 million, representing a 16% decrease YoY.
- Profit attributable to owners of the Company was RMB500 million, representing a 12% decrease YoY.
- Non-GAAP profit attributable to owners of the Company² was RMB589 million, representing a 28% decrease YoY.
- The Company declared a special interim dividend and an interim dividend of HKD1.0 and HKD0.4 per ordinary share respectively, for the six months ended 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Segmental Financial Highlights

(RMB million)	2023 First Half		2022 First Half	
	Gaming	Education	Gaming	Education
Revenue	1,920	1,720	1,776	2,410
Gross profit	1,858	419	1,699	610
Gross margin	97%	24%	96%	25%
Core segmental profit (loss) ¹	1,094	(249)	1,006	(36)
Segmental operating expenses ³				
— Research and development	(411)	(225)	(353)	(226)
— Selling and marketing	(187)	(238)	(188)	(252)
— Administrative	(156)	(192)	(152)	(177)

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK

As China entered into a new post-pandemic era, NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) were able to capitalize on the domestic economic recovery as our gaming business resumed its growth trajectory in the first half of 2023, achieving revenue of RMB1.9 billion, an 8% increase YoY. We remained focus on executing our multi-pronged strategy of driving consistent revenue growth of our existing flagship games, continually investing in R&D to expand our pipeline of new games, as well as driving innovation with new technologies. As a result, our revenue growth for the period significantly exceeded the market growth again both in the PC and mobile segments. This is a testament to not just the strength of our IPs, but more importantly, the deep capabilities of our team.

Our education business recorded a decline in revenue along with the broader market, as the industry entered into a digestion period after the Covid-driven demand spike in the last 2 to 3 years. Despite the temporary slowdown in shipment volumes, we maintained our global ex-China market share leadership as we continued to achieve high win rates in the market. During the first half, we successfully launched our new ActivPanel LX which targets the “value” segment and enables us to address a significant share of the global addressable market, where users look for affordable, yet high-quality solutions. We also stepped up our development effort related to software monetization as we continued to make progress towards providing AI-enabled tools that are integrated with our panels with the goal of driving recurring revenue.

We are proud to report positive progress made on the ESG front. In the first half of 2023, our S&P Global Sustainability Score increased to 40 points, putting NetDragon in the top 7% of the “interactive media, services, and home entertainment industry” assessed by S&P Global. NetDragon was also rated in the “low-risk” category by prominent rating agency Morningstar Sustainalytics. And in July 2023, we were honored as a “Gaming Company with Outstanding Social Responsibility” by People’s Daily Online for five consecutive years.

We remain committed to our capital return initiative, and therefore we are pleased to announce that the Board declared a special interim dividend of HKD1.0 and an interim dividend of HKD0.4 per ordinary share for the first half of 2023.

Gaming Business

Our gaming business achieved record high revenue of RMB1.9 billion, representing an increase of 8% YoY and 16% HoH on the back of our solid business execution and gradual macro recovery in China leading to resurgence of players’ spending in our games. The trend of such recovery is evident from the fact that we achieved consecutive quarterly gaming revenue growth from the third quarter of 2022 to the second quarter of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half, our domestic gaming business achieved revenue growth of 9% YoY, which significantly exceeded the market growth of 2%, demonstrating the exceptional resilience of our flagship IPs and the stickiness of our gaming communities. In the overseas segment, we achieved 4% YoY revenue growth during the period, compared to the negative market growth of 9%. We also achieved revenue growth in both PC and mobile segments. Revenue from PC games amounted to RMB1.6 billion, accounting for 84% of total gaming revenue with an 8% YoY growth. Mobile game revenue reached RMB312 million, accounting for 16% of total gaming revenue and registering a 7% YoY growth.

We continued to generate revenue growth from a combination of our existing games and new games. During the first half, our existing gaming portfolio generated the bulk of our revenue growth as we continued to execute our strategy to leverage upon the large base of players within our existing games with ultra-strong retention period, and to consistently strengthen communities and coming up with quality content updates and innovation within the games. This strategy has resulted in sustainable revenue growth that is evident in the operating history of our flagship games.

Our *Eudemons* IP delivered a solid first half as our flagship *Eudemons PC game* achieved revenue growth of 10% YoY and 22% HoH. In addition, revenue of mobile games under the *Eudemons* IP increased by 10% YoY and 11% HoH. The strong performance is a result of our consistent, systematic effort in introducing new gameplay mechanics, content updates, as well as striking the optimal balance within the gaming ecosystem that results in the most fun gaming experience for different types of players. In particular, our *Eudemons Online cross-platform (mobile) version* saw HoH increase of 32% in MAU and 16% in APA, highlighting an increasing number of *Eudemons PC* players benefiting from an enhanced playing experience with both smartphones and PC. To further drive revenue growth, we launched a total of 4 expansion packs under the *Eudemons* IP, and also launched our new game *Eudemons Mobile 2* in March 2023.

We continued to make progress in revitalizing our *Heroes Evolved* IP as we achieved a turnaround with HoH revenue increase of 12% for games under this IP on the back of a successful IP crossover partnership with the trendy anime IP, *Bofuri: I Don't Want to Get Hurt, so I'll Max Out My Defense*. We continued to calibrate the balance of gameplay for enhanced experience and expect to utilize targeted marketing techniques to step up our players' acquisition. To generate longer term growth, we are currently developing the 2.0 version of our flagship *Heroes Evolved* mobile game and expect to launch in the overseas market.

We also made progress in the application of generative AI (aka. AIGC) in the operations of our gaming business. We have seen the application of AIGC leading to significant increase in our efficiency in gaming content production, and we expect that we will continue to ramp up the efficiency curve. We also initiated multiple projects on AIGC with the objective of optimally utilizing AI to enhance our players' experience, including projects in the areas of intelligent NPC and AI gaming companion.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward, we expect a solid second half of the year ahead of us as we build on our accomplishments in the first half. We expect to make substantial progress with the development of new games in the pipeline, including multiple MMORPG and MOBA games that leverage our core development capabilities, as well as games that provide new experience for our gamers including an idle card game and a casual board game.

Education Business

Revenue from our education business was RMB1.7 billion, a decrease of 29% YoY, as the global interactive flat panel market entered into a post-pandemic digestion period, which is a result of demand spikes in the past 2 to 3 years as countries around the world accelerated their edtech adoption at an unprecedented pace to address students' learning needs during the pandemic. This pace of adoption was highlighted by the fact that interactive flat panel ("IFP") shipment values in the education sector globally increased at an average annual rate of 28% in 2021 and 2022, compared to 13% in 2019 and 2020. In addition, our shipment growth significantly exceeded these higher-than-normal market growth rates in the past 2 years.

During the period, we maintained our global ex-China market leadership position, and our market share was No.1 in all 5 of our top markets including the United States, Germany, the United Kingdom, Italy and the U.A.E. In May 2023, we reached a major product milestone with the launch of our ActivPanel LX, a lower-priced panel that enables us to enter a sizable segment of our global addressable market. We estimate this low-to-mid end segment represents 40-50% of the entire IFP market in terms of shipment volumes, as a growing number of schools look for simple, easy-to-use and affordable panels. Our ActivPanel LX is designed to precisely address these needs, and at a price that is a fraction of our higher-end ActivPanel 9 model. We also expect Promethean's existing market leadership and strong brand premium to further drive adoption of these panels, as there is a large market looking for high-quality low-end panels made by a top brand that they can trust. In addition, our ActivPanel LX product also targets a sizable replacement market. According to third-party research firm Futuresource, classrooms around the world are currently using over 5 million units of interactive whiteboards, which are products of an older technology and are being rapidly phased out. We believe the affordable feature of LX combined with our Promethean brand and quality will put us in the best position in the market to capitalize on this opportunity.

As we started shipment of the product following the May product launch, revenue from ActivPanel LX only represented 4% of Promethean's revenue in the first half. As we continue to generate sales momentum, we expect this share to trend up in the coming quarters. We are also pleased to see a highly significant share of our LX sales pipeline coming from new customer accounts (i.e. customers not using Promethean panels), a metric that highlights our ability to take market share away from our competitors in this lower end product category.

MANAGEMENT DISCUSSION AND ANALYSIS

Our adjusted gross margin (ex-tariff) for our Promethean subsidiary in the first half of 2023 was 28.4%, a 2.5 ppt increase compared to the second half of 2022 as we sold down most of our ActivPanel 7 panels in 2022, hence allowing our overall margin to benefit more significantly from the higher ASP of ActivPanel 9 due to the more favorable product mix. During the period, the blended gross ASP of our panels was USD2,267, a 6% increase compared to the second half of 2022. Our ASP increase was due to ActivPanel 9 representing a higher share of our shipment volume, offset partially by the lower ASP of our new lower-end LX panel product. The launch of the ActivPanel 9 in June 2022 and the ActivPanel LX in May of this year also underscored a more optimal segmentation of our product lines which better cater to the needs of different types of users and allow us to generate higher revenue over the long run. In particular, our ASP for ActivPanel 9 since launched was over 30% higher than ASP of ActivPanel 7 as customers get more value from our premium panel with a higher ASP, whereas our ASP for ActivPanel LX in the first half of 2023 was 31% lower than ActivPanel Nickel (the entry-level model of our previous ActivPanel 7), hence targeting a whole new segment of users by dramatically lowering the barrier of ownership.

We continued to heavily invest in research and development to enable AI monetization on our panels with the goal of generating recurring software revenue at scale. We were able to accelerate the development effort thanks to our acquisition of Explain Everything in November 2022, which provides the foundational platform that many of our future tools and features will be built on. Our plan is to generate subscription revenue by providing tools that not only seamlessly integrate with our hardware for the best user experience, but also address the true needs of teachers leveraging our understanding of our large user base. We currently expect to release the first software subscription package with integration of Promethean panels by the end of the year. We are also in active discussion with our partners to explore collaboration in large language models.

In China, we continued to work with the National Center for Education Technology (“NCET”), a unit directly under the Ministry of Education. In July 2023, we were awarded the tender to implement a software development project for the National K-12 Smart Education Platform for primary and secondary schools. This project aims to upgrade and enhance this platform’s functionalities in order to support large-scale and normalized online learning, as well as to create an ecosystem for the development and sharing of digital resources among all primary and secondary schools in China. Such platform was launched in March 2022 with broad-based countrywide adoption, amassing over 84 million registered users and 25 billion page views as of end of the first half.

In April 2023, we reached a key milestone with our announcement of the signing of a merger agreement to spin off our overseas education business for listing on NYSE. Based on the agreement, NetDragon, through its subsidiary, will merge its core overseas education business with Gravitas Education Holdings at a valuation of USD750 million (or USD800 million for the combined merged entity). We believe this strategic move will not only broaden the financing alternatives of our overseas education business, but also provide an independent platform with strong governance to drive sustainable growth going forward.

MANAGEMENT DISCUSSION AND ANALYSIS

Going forward, we are well positioned to drive revenue growth for our education business with our enhanced product segmentation. Our complete product line from low to high end will enable us to capture a much larger revenue opportunity in the IFP market. Last but not least, we remain highly committed to our path to provide AI-enabled tools to be integrated with our panels to put us in position to generate recurring subscription revenue.

Corporate Development Milestones and Awards for the First Half of 2023

Corporate Development Milestones/Recognitions	
Award Issuer	Name of the Award
People.cn	2022-2023 China's Gaming Enterprise with Outstanding Corporate Social Responsibility Performance (2022-2023年度中國遊戲企業社會責任表現較為突出企業)
CNG (伽馬數據)	China's Top Fifteen Listed Gaming Enterprises in terms of competitiveness (中國上市遊戲企業競爭力十五強)
沙利文捷利(深圳)雲科技有限公司	Listed Companies with Most Robust Revenue (最具穩健收益上市公司)
Tech and Learning	Tech & Learning Awards of Excellence
Tech and Learning	Tech & Learning ISTE Best of Show Award
Edtech Digest	EdTech Awards Cool Tool
EdTech Breakthrough	EdTech Breakthrough "Student Engagement Innovator of the Year" Award
Red Dot	Red Dot Design Award
iF Design	iF Design Award -
The District Committee and the People's Government of Changle District, Fuzhou City, the People's Republic of China (the "PRC")	Key Cultivated Enterprises (重點培育企業)
The District Committee and the People's Government of Changle District, Fuzhou City, the PRC	2022 Changle District Outstanding Contribution Award (長樂區2022年突出貢獻獎)
x-lab of Tsinghua University (清華x-lab)	2022 Excellent Institution in College-Enterprise Collaboration by x-lab of Tsinghua University (清華x-lab 2022年優秀校企合作機構)

MANAGEMENT DISCUSSION AND ANALYSIS

(3) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2023, the Group had restricted bank balance and pledged bank deposits, bank deposits with original maturity over three months and cash and cash equivalents of approximately RMB4,173 million (31 December 2022: RMB3,909 million).

As at 30 June 2023, the Group had net current assets of approximately RMB3,878 million as compared with approximately RMB3,723 million as at 31 December 2022.

(4) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.14 (31 December 2022: 0.11). As at 30 June 2023, total bank borrowings of the Group amounted to approximately RMB942 million (31 December 2022: RMB739 million) which included variable-rate loan of RMB380 million (31 December 2022: RMB376 million) and fixed-rate loan of RMB562 million (31 December 2022: RMB363 million). The bank borrowings of RMB940 million (31 December 2022: RMB736 million) were secured by pledge of certain properties and right-of-use assets of the Group, personal guarantee provided by heirs of a deceased director of the Company and corporate guarantee provided by the Company and its subsidiaries, the remaining bank borrowings of RMB2 million (31 December 2022: RMB3 million) were unsecured.

(5) CAPITAL STRUCTURE

As at 30 June 2023, the Group's total equity amounted to approximately RMB6,789 million (31 December 2022: RMB6,599 million).

(6) CONTINGENT LIABILITIES

As at 30 June 2023 and 31 December 2022, the Group did not have any material contingent liabilities.

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

Saved as disclosed in this interim report, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures as at 30 June 2023.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(8) FOREIGN CURRENCY RISKS

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

(9) CREDIT RISKS

As at 30 June 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(9) CREDIT RISKS (Cont'd)

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.

(11) STAFF INFORMATION

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

	At 30 June 2023	At 31 December 2022	At 30 June 2022
Research and development	3,068	2,960	2,699
Selling and marketing	916	961	1,008
Accounting, finance and general administration	981	952	835
Production	242	262	242
Total	<u>5,207</u>	<u>5,135</u>	<u>4,784</u>

MANAGEMENT DISCUSSION AND ANALYSIS

(12) PERFORMANCE EVALUATION

Human Resources

1. As of 30 June 2023, the total number of employees of the Group is 5,207.
1. Talent introduction and cultivation has always been a focus of the Company. Therefore, the Company has been bringing in high-caliber “new blood” continuously and optimizing allocation of human resources. In the first half of the year, a large number of outstanding talents in the fields of gaming and education were attracted by our extensive business platform and fast-growing business trend. A total of 501 talents were hired, including 62 senior elites. Meanwhile, we launched the 2023 spring campus recruitment campaigns in key renowned universities across the country attracting the attention of 9,233 local and overseas fresh graduates and 50 outstanding fresh graduates received job offers. In respect of college-enterprise collaboration, we, cooperating with 985 renowned colleges and universities, actively participated in the “on-job training” project launched by the Ministry of Education to reserve talents for the new era with the aid of the Company’s quality education resources and talent cultivation system, and in turn improve the brand awareness and influence of the Company.
2. The Company is committed to breakthrough the organizational confinement and attracting outstanding talents to work together for our cause through more flexible and diversified modes of employment and cooperation. On the one hand, we aim to enhance the capabilities of the Company to a new height and accelerate business development by continuously promoting metaverse cooperation mode with the support of external experts and professional teams. On the other hand, we have made public the business needs of NetDragon. Intellectuals from all sectors of the society are welcome to take part in NetDragon’s business operation for a fee, so that pressure on employment may be partially relieved through a more flexible way of cooperation.
3. The Company continued to implement the strategy to go “full electronic” to accelerate the transformation of digitalizing human resources. We have introduced a new recruitment management system which improves the overall recruitment efficiency through more advanced electronic means to achieve the result of adaptable to demands, rapid adjustment and precise identification in the process of recruitment, thereby the needs of building a normalised workforce for the Company can be fulfilled. Organizational management efficiency can be improved by electrification through continuously promoting result-oriented and AI-enhanced task management and performance appraisal, and scientific management and objective evaluation of achievements of work. By establishing a talent tag database model and promoting two-way matching of people and tasks, we have gradually transformed our practice into a more flexible and efficient mode of organizational management. In adherence to the rationales of “AI + electrification” and “fairness and openness”, we have built talent data dashboards that provide us a more comprehensive data reference for decision-making on major personnel affairs of the Company by further focusing on comprehensive assessment of business output and value contribution for talent evaluation.
4. The Company promotes a culture of learning and is committed to improving overall quality of our staff. To encourage the practice of lifelong learning, we have carried out full staff training. On the one hand, we adhere to the use of technology to empower our staff to quickly improve their knowledge and skills at work through various ways such as electrification of working methods in a superb way, training and certification, and the requirement of “holding certificate while taking on duties”. On the other hand, from the perspective of strategy, we have continuously introduced various series of courses in new technology, such as AI technology, to enhance the core skills of key personnel. Focusing on the improvement of management’s ability, we carried out projects such as executive leadership assessment and feedback, to propel our teams to work together to achieve the goals of the organization.
5. In terms of employee services, the Company continued to improve service quality, service efficiency and service experience to enhance staff satisfaction and sense of belonging. We have promoted harmony between staff and the Company through introducing many more enriched and innovative ways of interaction and organizing various fun-filled activities that enhanced corporate culture, welfare and atmosphere. Effort has been made to care for our staff and express condolences from a more humane perspective, making it even more heartwarming.

MANAGEMENT DISCUSSION AND ANALYSIS

(13) STAFF TRAININGS

At present, new technologies such as AI, 3D, big data, blockchain and Web3.0 are constantly being introduced. We must strive to keep up with the ever-changing technology environment to discover and seize new opportunities. As a company that “empowers education with technology”, it is important to master new technologies. This requires us to carry out sufficient, systematic learning and to improve and grow continuously in order to better ourselves and to help achieve the strategic goals of the organization. Under such background, we build the professional capabilities of our staff and enhance their personal capabilities through various methods such as “full staff training”, “electronification of tasks”, “learning new technologies”, “insourcing tasks” and “heart sign-in”.

1. In-house training

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

Currently, we have sorted out 13,742 tasks, completed 4,301 task definitions and SOP productions and completed matching 4,222 task tools. Through a complete set of task tools and relevant training, staff can learn how to use each task tool in the form of on-demand learning, instead of having to fully understand and master the entire concept, which greatly reduces the implementation threshold of each task.

Additionally, in the first half of 2023, the E-Learning platform launched 145 courses which 5,373 students participated in the learning, with a total learning time of 163,730 hours and an average learning time of 30.47 hours per person. Students have increased general, technical and design related knowledge through learning.

2. Full staff training, building professional capabilities

Through “full staff training”, we aim to build the professional capabilities of each position, such as offering new technical courses such as Unreal and AIGC; and field specialized courses such as full staff pedagogy training and full staff animation performance training to help staff enhance their professional skills and career development.

In the first half of 2023, 76 employees were trained by full staff training Unreal specialized course, with a total learning time of 28,416 hours and an average learning time of approximately 374 hours per person. Students not only improved their knowledge and skills related to Unreal, and obtained certificates issued by the Company, but also applied what they have learnt to different projects through the in-house Unreal training and certification.

MANAGEMENT DISCUSSION AND ANALYSIS

(13) STAFF TRAININGS (Cont'd)

3. Enhancing employee welfare by undertaking in-house tasks

We based on the organizational strategy of “co-creation everyone partakes in and value everyone shares” within the enterprise to organize our work more flexibly; in addition to completing their personal duties, staff can also choose to undertake in-house tasks and receive compensation from the metaverse work mode to improve their own welfare benefits; meanwhile, the insourcing and outsourcing based on task tools also reduce the difficulty of task and training, which allows more people to participate and maximizes the use of resources.

In the first half of 2023, the total number of insourcing and outsourcing tasks reached 558. Employees are no longer limited by space and positions, but are task-oriented. As long as they pass the training and certification of the tasks, they can undertake the tasks from different projects and receive task insourcing compensation.

4. Learning and applying new technology

In today’s ever-changing technology environment, it is important for companies to master and apply new technologies. We have launched a series of courses on new technologies, such as the general all staff version of AI painting, to help staff master and apply new technologies in order to better explore and seize new opportunities. Currently, there are a total of 82 students in the general all staff version of AI painting course, with a total learning time of 480 hours. We will carry out the practical certification of AI painting subsequently to ensure the mastery of relevant skill.

5. Heart sign-in

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

In the first half of the year, there were 33,929 heart sign-ins written by 216 people in heart sign-in club, with pageviews reaching 7,380,161. We let all the students of the Company not only experience the corporate culture, but also learn about strategy, technology, management, product, design, operation and other aspects through heart sign-in method to help them grow better.

MANAGEMENT DISCUSSION AND ANALYSIS

(14) CORPORATE CULTURE

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



Passion

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



Learning

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



Innovation

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



Endeavor

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



Pursuit of Excellence

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



Fairness

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



Customer-orientation

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

MANAGEMENT DISCUSSION AND ANALYSIS

(15) INTERIM DIVIDEND

On 30 August 2023, the Board has resolved to declare a special interim dividend and an interim dividend of HKD1.0 per share and HKD0.4 per share respectively, for the six months ended 30 June 2023 (2022: interim dividend of HKD0.4 per share). Coupling with the interim dividend, the total dividends amount to HKD1.4 per share for the six months ended 30 June 2023. The special interim dividend and the interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 14 September 2023. It is expected that the special interim dividend and the interim dividend will be distributed on or around 30 November 2023.

(16) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 14 September 2023 to Friday, 15 September 2023, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the special interim dividend and the interim dividend for the six months ended 30 June 2023, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 13 September 2023.

OTHER INFORMATION

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

As at 30 June 2023, 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	216,384,938 (L)	40.75%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	5,419,040 (L)	1.02%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	216,384,938 (L)	40.75%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB21,311,000 (L)	0.07%
Chen Hongzhan (Note 5)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.11%

OTHER INFORMATION

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

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or registered capital contributed (Note 1)	Approximate percentage of shareholding
Lee Kwan Hung, Eddie (Note 6)	The Company	Beneficial owner	583,019 (L)	0.11%
Liu Sai Keung, Thomas (Note 7)	The Company	Beneficial owner	818,019 (L)	0.15%
Li Sing Chung, Matthias (Note 8)	The Company	Beneficial owner	2,000 (L)	0.0004%

Notes:

- The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
- Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 35.99% of the issued voting shares of the Company (the "Share(s)"). Liu Dejian is also interested in 0.39% of the Shares of the Company which is represented by beneficial interest of 1,884,000 Shares and a beneficiary of a trust of 197,019 Shares.

Liu Luyuan is interested in 4.37% of the Shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 21,541,819 Shares, and the rest being beneficial interest of 1,684,000 Shares.

Pursuant to the concert party agreement between Liu Dejian and Liu Luyuan, Liu Dejian and Liu Luyuan are deemed to be interested in 40.75% of the Shares through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian and their respective shares held as beneficial owner in each of their personal capacities.

OTHER INFORMATION

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

Notes: (Cont'd)

3. Liu Luyuan and Zheng Hui (deceased) were interested in 0.07% and 99.89%, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”) respectively. Liu Luyuan and Zheng Hui had agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Luyuan and Zheng Hui were deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian). Reference is made to the announcement of the Company dated 9 June 2023 in relation to the passing away of Zheng Hui, an executive Director before his passing away. As at 30 June 2023, Zheng Hui's interests were undergoing probate.
4. Leung Lim Kin, Simon is interested in 1.02% of the Shares which is represented by beneficial interest of 1,419,040 Shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.
5. Chen Hongzhan is interested in 2.11% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. Lee Kwan Hung, Eddie is interested in 0.11% of the Shares which is represented by personal interest of 65,019 Shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.
7. Liu Sai Keung, Thomas is interested in 0.15% of the Shares of the Company which is represented by personal interest of 300,019 Shares and the rest being underlying shares of interest of 518,000 share options granted by the Company.
8. Li Sing Chung, Matthias is interested in 0.0004% of the Shares which is represented by personal interest of 2,000 Shares.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2023, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

OTHER INFORMATION

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

So far as is known to the Directors, as at 30 June 2023, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	35.99%
IDG Group (Note 2)	The Company	Beneficial owner	53,533,320 (L)	10.08%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	53,533,320 (L)	10.08%
Zhou Quan (Note 2)	The Company	Through controlled corporations	50,470,735 (L)	9.51%
Zheng Hui (deceased) (Note 3)	The Company	Beneficial owner and through controlled corporations	34,437,519(L)	6.49%

Notes:

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

OTHER INFORMATION

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

Notes: (Cont'd)

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.05%, 6.19%, 1.27% and 0.57% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investors Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. Reference is made to the announcement of the Company dated 9 June 2023 in relation to the passing away of Zheng Hui, a former executive Director.

Zheng Hui (deceased) was interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn was interested in 3.58% of the Shares. Zheng Hui was interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn was interested in 2.62% of the Shares. Zheng Hui was also interested in 0.28% of the issued Shares which was represented by beneficial interest of 1,497,000 Shares. Zheng Hui's interests are now undergoing probate.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group as at 30 June 2023.

OTHER INFORMATION

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the “2018 Share Option Scheme”) to replace the share option scheme which expired on 12 June 2018 (the “2008 Share Option Scheme”). Details of the share options outstanding and movement during the period ended 30 June 2023 are as follows:

2008 Share Option Scheme

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options				As at
			1 January 2023	Granted	Exercised	Cancelled	Lapsed	30 June 2023
Independent non-executive Directors								
Lee Kwan Hung, Eddie	04.12.2013	15.72	318,000	—	—	—	—	318,000
	31.03.2017	23.65	100,000	—	—	—	—	100,000
Liu Sai Keung, Thomas	04.12.2013	15.72	318,000	—	—	—	—	318,000
	31.03.2017	23.65	100,000	—	—	—	—	100,000
Others								
Employees	16.01.2013	11.164	48,500	—	45,400	—	3,100	—
	04.12.2013	15.72	238,500	—	—	—	—	238,500
	31.03.2017	23.65	100,000	—	—	—	—	100,000
Total			<u>1,223,000</u>	<u>—</u>	<u>45,400</u>	<u>—</u>	<u>3,100</u>	<u>1,174,500</u>

OTHER INFORMATION

SHARE OPTION SCHEME (Cont'd)

2018 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options				As at
			1 January 2023	Granted	Exercised	Cancelled	Lapsed	30 June 2023
Executive Directors								
Leung Lim Kin, Simon	24.01.2020	21.07	4,000,000	—	—	—	—	4,000,000
Independent non-executive Directors								
Lee Kwan Hung, Eddie	24.01.2020	21.07	100,000	—	—	—	—	100,000
Liu Sai Keung, Thomas	24.01.2020	21.07	100,000	—	—	—	—	100,000
Others								
Employees	24.01.2020	21.07	<u>1,100,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,100,000</u>
Total			<u><u>5,300,000</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>5,300,000</u></u>

Notes:

- For vesting period and exercise period of the options granted under the 2008 Share Option Scheme and the 2018 Share Option Scheme, please refer to note 20 of the Notes to the Condensed Consolidated Financial Statements.
- The weighted average closing price of the shares immediately before various dates during 2023 on which the options were exercised was HKD17.48.

As at 30 June 2023, no options were granted under the 2018 Share Option Scheme. 47,041,969 Options are available for grant under 2018 Share Option Scheme at the beginning and the end of the period ended 30 June 2023.

OTHER INFORMATION

SHARE AWARD SCHEME

The Company

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

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

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.

As at 30 June 2023, no awarded shares were granted under the NetDragon Share Award Scheme. 48,213,303 awards are available for grant under NetDragon Share Award Scheme at the beginning and the end of the period ended 30 June 2023.

Best Assistant Education Online Limited (“Best Assistant”)

Best Assistant approved and adopted the share award scheme (the “Best Assistant Share Award Scheme”) on 7 August 2012 and it was amended by the resolution passed on 5 August 2022 to extend a period of 10 years, in which selected participants include senior management employees of Best Assistant and/or its subsidiaries (“Best Assistant Group”), consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries (excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

OTHER INFORMATION

SHARE AWARD SCHEME (Cont'd)

Best Assistant Education Online Limited (Cont'd)

Subject to early termination, the Best Assistant Share Award Scheme shall be valid and effective for a term of ten years commencing on 5 August 2022. Best Assistant may also transfer shares awarded under the Best Assistant Share Award Scheme whether vested or unvested to other trusts and if there is a change in control of Best Assistant, all awarded shares shall immediately be vested. The board of directors of Best Assistant may also waive any vesting conditions with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha. The maximum number of shares which may be granted to the participants under the Best Assistant Share Award Scheme shall not exceed ten percent (10%) of the total issued share capital of Best Assistant from time to time or such number of shares as determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

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

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

As at 30 June 2023, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

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

Assuming all of the Series A Preferred Shares are fully converted into ordinary shares of Best Assistant, the Company’s interest in ordinary shares of Best Assistant will be reduced from 90.50% to approximately 83.61%.

As at 30 June 2023, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

OTHER INFORMATION

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

On 6 April 2018, Best Assistant, Digital Train Limited (“Digital Train”) as purchaser, a wholly-owned subsidiary of Best Assistant, Educate Merger Sub, Inc. (“Merger Sub”), a wholly-owned subsidiary of the purchaser, Edmodo, LLC (“Edmodo”), Fortis Advisors LLC, in its capacity as representative of the shareholders of Edmodo, and the Company, solely with respect as guarantor for the timely performance of the obligations of Best Assistant and Digital Train entered into an agreement and plan of merger (the “Agreement and Plan of Merger”), pursuant to which Digital Train acquired Edmodo, for consideration in the form of cash and stock collectively valued in the amount of USD137.5 million by way of merger under the laws of the State of Delaware.

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

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

As at 30 June 2023, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

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

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

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

As at 30 June 2023, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistant and no warrants were converted into shares of the Company.

OTHER INFORMATION

USE OF PROCEEDS FROM TOP-UP PLACING AND SUBSCRIPTION

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

Completion of the Top-up Placing took place on 17 February 2020 and the Top-up Subscription took place on 25 February 2020. A total of 33,000,000 Top-up Placing Shares have been successfully placed to not less than six places and the 33,000,000 Top-up Subscription Shares had been allotted and issued to Mr. Liu Dejian pursuant to the general mandate. The aggregate gross proceeds from the Top-up Placing and Subscription are approximately HKD782.10 million and the aggregate net proceeds from the Top-up Placing and Subscription are approximately HKD774.28 million after deducting the commission payable to the Placing Agent, professional fee and other related costs and expenses in relation to the Top-up Placing and Subscription. On such basis, the net price of each Top-up Subscription Share is approximately HKD23.44.

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

OTHER INFORMATION

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

Merger and Proposed Spin-off

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

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

Immediately upon closing of the Merger (the “Closing”), eLMTree will become a direct wholly-owned subsidiary of GEHI, a company listed on the New York Stock Exchange (“NYSE”) (NYSE ticker: GEHI).

The transactions contemplated under the Merger Agreement were approved by the shareholders at the extraordinary general meeting held on 14 July 2023. The Company anticipates that Closing will take place by the end of the third quarter of 2023.

Distribution in Specie

To give due regard to the interests of the shareholders of the Company, conditional upon the Closing, the Directors propose to declare a special dividend to shareholders by way of a distribution in specie (the “**Distribution in Specie**”) of certain ordinary shares of GEHI to be held by the Company (indirectly through ND (BVI)) after Closing (or cash alternative under certain circumstances), in proportion to their respective shareholdings in the Company.

As at the date of this report, the terms of the Distribution in Specie have not been finalised and are subject to change. The Company will make further announcement in relation to detailed arrangement of the distribution as and when appropriate.

OTHER INFORMATION

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2023.

INTERIM DIVIDEND

On 30 August 2023, the Board has resolved to declare a special interim dividend and an interim dividend of HKD1.0 per share and HKD0.4 per share for the six months ended 30 June 2023 (2022: HKD0.5 and HKD0.4 per share). The special interim dividend and the interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 14 September 2023. It is expected that the special interim dividend and the interim dividend will be distributed on or around 30 November 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 14 September 2023 to Friday, 15 September 2023, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the special interim dividend and the interim dividend for the six months ended 30 June 2023, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 13 September 2023.

DISCLOSURE OF CHANGE OF INFORMATION OF DIRECTOR UNDER RULE13.51B(1) OF THE LISTING RULES

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

Mr. Zheng Hui, an executive Director, has passed away on 7 June 2023, reference is made to the announcement of the Company dated 9 June 2023.

Mr. Lee Kwan Hung, Eddie ceased to be an independent non-executive director of Red Star Macalline Group Corporation Ltd. after conclusion of the general meeting held on 15 August 2023 upon the expiration of his term of office.

OTHER INFORMATION

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group’s interim results for the six months ended 30 June 2023 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.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 June 2023, the Company bought back a total of 9,844,500 shares on the Stock Exchange at an aggregate consideration of HKD146.7 million before expenses. All such shares were subsequently cancelled in June 2023. 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 <i>HKD million</i>
		Highest <i>HKD</i>	Lowest <i>HKD</i>	
April 2023	3,633,500	15.44	14.46	54.4
May 2023	4,450,000	15.62	13.96	66.0
June 2023	1,761,000	15.28	14.20	26.3

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 period ended 30 June 2023.

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

Hong Kong, 30 August 2023

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 34 to 72, which comprise the condensed consolidated statement of financial position as of 30 June 2023, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTES	Six months ended 30 June	
		2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Revenue	4	3,681	4,240
Cost of revenue		<u>(1,394)</u>	<u>(1,917)</u>
Gross profit		2,287	2,323
Other income and gains	5(a)	120	44
Impairment loss under expected credit loss model, net of reversal		—	(9)
Selling and marketing expenses		(443)	(442)
Administrative expenses		(570)	(464)
Research and development costs		(641)	(586)
Other expenses and losses	5(b)	(50)	(112)
Share of results of associates and joint ventures		<u>(4)</u>	<u>(9)</u>
Operating profit		699	745
Exchange loss on financial assets at fair value through profit or loss, convertible and exchangeable bonds and derivative financial instruments		(35)	(42)
Fair value change on financial assets at fair value through profit or loss		35	(32)
Fair value change on derivative financial instruments		15	8
Finance costs		<u>(135)</u>	<u>(99)</u>
Profit before taxation		579	580
Taxation	6	<u>(126)</u>	<u>(38)</u>
Profit for the period	7	<u>453</u>	<u>542</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTE	Six months ended 30 June	
		2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Other comprehensive income (expense) for the period, net of income tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		61	17
Item that will not be reclassified to profit or loss:			
Fair value change on equity instruments at fair value through other comprehensive income		(1)	(1)
Other comprehensive income for the period		60	16
Total comprehensive income for the period		513	558
Profit (loss) for the period attributable to:			
— Owners of the Company		500	565
— Non-controlling interests		(47)	(23)
		453	542
Total comprehensive income (expense) for the period attributable to:			
— Owners of the Company		557	582
— Non-controlling interests		(44)	(24)
		513	558
		RMB cents	RMB cents
Earnings per share	9		
— Basic		92.61	104.42
— Diluted		92.61	104.40

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	NOTES	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Non-current assets			
Property, plant and equipment	10	1,945	1,936
Deposits made for acquisition of property, plant and equipment		5	5
Right-of-use assets	10	356	380
Investment properties		61	59
Goodwill		302	287
Intangible assets	10	822	739
Interests in associates and joint ventures		35	34
Equity instruments at fair value through other comprehensive income		55	56
Financial assets at fair value through profit or loss	11	432	404
Loan receivables		10	8
Other receivables, prepayments and deposits	14	80	89
Deferred tax assets		391	347
		<u>4,494</u>	<u>4,344</u>
Current assets			
Properties under development		394	343
Properties for sale		303	303
Inventories	12	581	807
Financial assets at fair value through profit or loss	11	105	84
Loan receivables		54	4
Trade receivables	13	854	654
Other receivables, prepayments and deposits	14	528	549
Amounts due from joint ventures		6	5
Tax recoverable		33	29
Restricted bank balance and pledged bank deposits		13	1
Bank deposits with original maturity over three months		515	207
Cash and cash equivalents		3,645	3,701
		<u>7,031</u>	<u>6,687</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	NOTES	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Current liabilities			
Trade and other payables	15	1,284	1,513
Contract liabilities		403	406
Lease liabilities		60	67
Provisions		123	94
Derivative financial instruments	11	16	31
Bank borrowings	16	941	737
Convertible and exchangeable bonds	17	17	16
Dividend payables		197	—
Tax payable		112	100
		<u>3,153</u>	<u>2,964</u>
Net current assets		<u>3,878</u>	<u>3,723</u>
Total assets less current liabilities		<u>8,372</u>	<u>8,067</u>
Non-current liabilities			
Other payables	15	16	19
Lease liabilities		35	50
Bank borrowings	16	1	2
Convertible and exchangeable bonds	17	1,452	1,317
Convertible preferred shares	18	—	—
Deferred tax liabilities		79	80
		<u>1,583</u>	<u>1,468</u>
Net assets		<u>6,789</u>	<u>6,599</u>
Capital and reserves			
Share capital	19	39	40
Share premium and reserves		<u>7,093</u>	<u>6,859</u>
Equity attributable to owners of the Company		7,132	6,899
Non-controlling interests		<u>(343)</u>	<u>(300)</u>
		<u>6,789</u>	<u>6,599</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Attributable to owners of the Company															
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Property revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Equity instruments at fair value through other comprehensive income reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	RMB million	RMB million	RMB million (Note a)	RMB million (Note b)	RMB million (Note c)	RMB million (Note d)	RMB million	RMB million	RMB million (Note e)	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2022 (audited)	40	1,866	8	(148)	10	525	811	22	(13)	51	(139)	(5)	4,167	7,315	(240)	7,075
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	—	—	565	565	(23)	542
Other comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	17	—	—	17	(1)	16
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	17	—	565	582	(24)	558
Repurchase and cancellation of shares	—	(68)	—	—	—	—	—	—	—	—	—	—	—	(68)	—	(68)
Recognition of equity-settled share-based payments, net of awarded shares and share options forfeited	—	—	—	—	—	—	—	—	—	3	—	—	—	3	—	3
Awarded shares vested to employees	—	—	—	—	—	—	—	—	4	(4)	—	—	—	—	—	—
Acquisition of additional equity interests from non-controlling interests	—	—	—	(2)	—	—	—	—	—	—	—	—	—	(2)	(5)	(7)
Final dividend for 2021 declared	—	—	—	—	—	—	(179)	—	—	—	—	—	2	(177)	—	(177)
Special interim dividend for 2021 declared and paid	—	—	—	—	—	—	(632)	—	—	—	—	—	—	(632)	—	(632)
Interim dividend for 2022 proposed	—	—	—	—	—	—	185	—	—	—	—	—	(185)	—	—	—
Special interim dividend for 2022 proposed	—	—	—	—	—	—	231	—	—	—	—	—	(231)	—	—	—
At 30 June 2022 (unaudited)	40	1,918	8	(150)	10	525	416	22	(9)	50	(122)	(5)	4,318	7,021	(269)	6,752
At 1 January 2023 (audited)	40	1,918	8	(156)	10	678	193	22	(9)	53	(92)	(7)	4,241	6,899	(300)	6,599
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	—	—	500	500	(47)	453
Other comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	58	(1)	—	57	3	60
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	58	(1)	500	557	(44)	513
Repurchase and cancellation of shares	(1)	(134)	1	—	—	—	—	—	—	—	—	—	(1)	(135)	—	(135)
Contribution from non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	1
Recognition of equity-settled share-based payments, net of share options forfeited	—	—	—	—	—	—	—	—	—	2	—	—	—	2	—	2
Final dividend for 2022 declared	—	—	—	—	—	—	(193)	—	—	—	—	—	2	(191)	—	(191)
Interim dividend for 2023 proposed	—	—	—	—	—	—	196	—	—	—	—	—	(196)	—	—	—
Special interim dividend for 2023 proposed	—	—	—	—	—	—	490	—	—	—	—	—	(490)	—	—	—
At 30 June 2023 (unaudited)	39	1,784	9	(156)	10	678	686	22	(9)	55	(34)	(8)	4,056	7,132	(343)	6,789

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

Notes:

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
OPERATING ACTIVITIES		
Profit for the period	453	542
Adjustments for:		
Taxation	126	38
Interest income on bank balances, loan receivables, convertible promissory notes and refundable rental deposits	(33)	(19)
Fair value change on derivative financial instruments	(15)	(8)
Fair value change on financial assets at fair value through profit or loss	(35)	32
Amortisation of intangible assets	70	67
Depreciation of property, plant and equipment	95	95
Depreciation of right-of-use assets	38	36
(Reversal of impairment loss) impairment loss of intangible assets	(43)	55
Write-down of inventories	4	24
Interest expense on bank borrowings (included in finance costs)	23	6
Interest expense on convertible and exchangeable bonds (included in finance costs)	108	90
Others	10	25
Operating cash flows before movements in working capital	801	983
Increase in trade receivables	(172)	(140)
Decrease (increase) in inventories	225	(71)
Increase in properties under development	(51)	(69)
Decrease in properties for sale	—	5
Decrease in other receivables, prepayments and deposits	41	31
Decrease in trade and other payables	(257)	(35)
Decrease in contract liabilities	(3)	(30)
Increase (decrease) in provisions	53	(1)
Others	—	(4)
Cash generated from operations	637	669
Interest paid	(35)	(28)
Income tax paid	(145)	(161)
NET CASH FROM OPERATING ACTIVITIES	457	480

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTES	Six months ended 30 June	
		2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(116)	(89)
Placement of bank deposits with original maturity over three months		(507)	(200)
Withdrawal of bank deposits with original maturity over three months		200	630
Placement of restricted bank balance and pledged bank deposits		(12)	—
Withdrawal of restricted bank balance		—	8
Purchase of intangible assets	10	(83)	(56)
Deposits made for acquisition of property, plant and equipment		—	(4)
Interest received		25	31
Purchase of financial assets at fair value through profit or loss		(6,061)	(4,203)
Purchase of equity instruments at fair value through other comprehensive income		—	(50)
Proceeds from disposal of financial assets at fair value through profit or loss		6,062	4,117
Other investing activities		(57)	18
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(549)	202
FINANCING ACTIVITIES			
New bank borrowings raised	16	703	339
Dividend paid		—	(632)
Repayment of bank borrowings		(512)	(314)
Repayment of lease liabilities		(37)	(33)
Payment for repurchase and cancellation of shares		(135)	(68)
Contribution from non-controlling interests of a subsidiary		1	—
Acquisition of additional equity interests from non-controlling interests		—	(7)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		20	(715)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(72)	(33)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		3,701	3,717
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		16	17
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		3,645	3,701

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values, as appropriate.

Other than additional/change in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Except as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies on application of Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the condensed 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 and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Impacts and changes in accounting policies on application of Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” (Cont'd)

Transition and summary of effects

As disclosed in the Group’s annual financial statements for the year ended 31 December 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;
- (ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use assets and lease liabilities.

The application of the amendments has had no material impact on the Group’s financial position and performance, except that the Group recognised the related deferred tax assets of RMB22 million and deferred tax liabilities of RMB22 million on a gross basis but it has no material impact on the retained profits at the earliest period presented.

Impacts on application of Amendments to HKAS 12 Income Taxes International Tax Reform-Pillar Two model Rules

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the “Pillar Two legislation”). The amendments require that entities shall apply the amendments immediately upon issuance.

4. REVENUE AND SEGMENT INFORMATION

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Disaggregation of revenue from contracts with customers		
Online and mobile games revenue	1,920	1,776
Education revenue (including sales of education equipment and related goods and educational services)	1,720	2,410
Mobile solution, products and marketing revenue	41	38
Property project revenue	—	16
	<u>3,681</u>	<u>4,240</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

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

Types of goods and services

	Six months ended 30 June 2023 (Unaudited)				
	Online and mobile games revenue RMB million	Education revenue RMB million	Mobile solution, products and marketing revenue RMB million	Property project revenue RMB million	Total RMB million
Revenue from sales of pre-paid game cards for online and mobile games	1,920	—	—	—	1,920
Sales of education equipment and related goods	—	1,613	—	—	1,613
Revenue from provision of mobile solution, products and marketing services	—	—	41	—	41
Revenue from educational services	—	107	—	—	107
	<u>1,920</u>	<u>1,720</u>	<u>41</u>	<u>—</u>	<u>3,681</u>

	Six months ended 30 June 2022 (Unaudited)				
	Online and mobile games revenue RMB million	Education revenue RMB million	Mobile solution, products and marketing revenue RMB million	Property project revenue RMB million	Total RMB million
Revenue from sales of pre-paid game cards for online and mobile games	1,776	—	—	—	1,776
Sales of education equipment and related goods	—	2,335	—	—	2,335
Revenue from provision of mobile solution, products and marketing services	—	—	38	—	38
Revenue from educational services	—	75	—	—	75
Revenue from property project	—	—	—	16	16
	<u>1,776</u>	<u>2,410</u>	<u>38</u>	<u>16</u>	<u>4,240</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

Timing of revenue recognition

	Six months ended 30 June 2023 (Unaudited)				
	Online and mobile games revenue	Education revenue	Mobile solution, products and marketing revenue	Property project revenue	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
A point in time	1,920	1,613	—	—	3,533
Over time	—	107	41	—	148
	<u>1,920</u>	<u>1,720</u>	<u>41</u>	<u>—</u>	<u>3,681</u>

	Six months ended 30 June 2022 (Unaudited)				
	Online and mobile games revenue	Education revenue	Mobile solution, products and marketing revenue	Property project revenue	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
A point in time	1,776	2,335	—	16	4,127
Over time	—	75	38	—	113
	<u>1,776</u>	<u>2,410</u>	<u>38</u>	<u>16</u>	<u>4,240</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

Geographical information

	Six months ended 30 June 2023 (Unaudited)				
	Online and		Mobile solution,	Property	Total
	mobile games	Education	products and	project	
	revenue	revenue	marketing	revenue	
RMB million	RMB million	revenue	RMB million	RMB million	
PRC	1,635	155	—	—	1,790
United States of America ("USA")	270	1,193	—	—	1,463
Europe (Note)	—	330	—	—	330
Others	15	42	41	—	98
	<u>1,920</u>	<u>1,720</u>	<u>41</u>	<u>—</u>	<u>3,681</u>

	Six months ended 30 June 2022 (Unaudited)				
	Online and		Mobile solution,	Property	Total
	mobile games	Education	products and	project	
	revenue	revenue	marketing	revenue	
RMB million	RMB million	revenue	RMB million	RMB million	
PRC	1,501	127	—	16	1,644
USA	258	1,605	—	—	1,863
Europe (Note)	—	601	—	—	601
Others	17	77	38	—	132
	<u>1,776</u>	<u>2,410</u>	<u>38</u>	<u>16</u>	<u>4,240</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information

Information reported to the executive directors of the Company, being the chief operating decision makers ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

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

Six months ended 30 June 2023

	Online and mobile games RMB million	Education RMB million	Mobile solution, products and marketing RMB million	Property project RMB million	Total RMB million
Segment revenue	<u>1,920</u>	<u>1,720</u>	<u>41</u>	<u>—</u>	<u>3,681</u>
Segment profit (loss)	<u>1,260</u>	<u>(529)</u>	<u>5</u>	<u>(18)</u>	<u>718</u>
Unallocated other income and gains					54
Unallocated corporate expenses and losses					<u>(193)</u>
Profit before taxation					<u>579</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

Six months ended 30 June 2022

	Online and mobile games RMB million	Education RMB million	Mobile solution, products and marketing RMB million	Property project RMB million	Total RMB million
Segment revenue	<u>1,776</u>	<u>2,410</u>	<u>38</u>	<u>16</u>	<u>4,240</u>
Segment profit (loss)	<u>997</u>	<u>(286)</u>	<u>(6)</u>	<u>8</u>	713
Unallocated other income and gains					25
Unallocated corporate expenses and losses					<u>(158)</u>
Profit before taxation					<u>580</u>

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

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

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Online and mobile games	5,437	5,082
Education	4,349	4,517
Mobile solution, products and marketing	56	68
Property project	765	704
Total segment assets	10,607	10,371
Unallocated	918	660
	<u>11,525</u>	<u>11,031</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

(a) Other income and gains

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Government grants (Note)	13	8
Interest income on bank balances, loan receivables, convertible promissory notes and refundable rental deposits	33	19
Reversal of impairment loss of intangible assets	43	—
Others	31	17
	<u>120</u>	<u>44</u>

Note: Government grants were received from the government of the PRC mainly for subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for research and development costs already incurred, which amounted to RMB9 million (six months ended 30 June 2022: RMB3 million) for the six months ended 30 June 2023 and is recognised in profit or loss and (ii) the purchase of property, plant and equipment, which is recognised as deferred income upon receipt and is recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure with an amount of RMB4 million (six months ended 30 June 2022: RMB3 million).

During the current interim period, the Group did not receive government grants in respect of Covid-19-related subsidies.

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

(b) Other expenses and losses

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Impairment loss of intangible assets	—	55
Redundancy payments	24	26
Other tax and charges	18	18
Others	8	13
	<u>50</u>	<u>112</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

6. TAXATION

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
The tax charge comprises:		
Hong Kong Profits Tax		
— Current period	36	31
PRC Enterprise Income Tax		
— Current period	119	120
— (Over) under provision in prior years	(3)	3
	<u>116</u>	<u>123</u>
Taxation in other jurisdictions		
— Current period	1	(1)
— Under provision in prior years	—	1
	<u>1</u>	<u>—</u>
Deferred tax		
— Current period	(27)	(3)
— Net recognition of unused tax losses in prior years (Note)	—	(113)
	<u>(27)</u>	<u>(116)</u>
	<u>126</u>	<u>38</u>

Note: Pursuant to a reorganisation completed during the six months ended 30 June 2022, a subsidiary of the Company incorporated in USA (“Subsidiary A”) became a subsidiary of another subsidiary of the Company incorporated in USA (“Subsidiary B”, together with Subsidiary A, collectively the “Group B”). On the completion date of the said reorganisation, Subsidiary A was converted into a limited liability company and became disregarded as separate from its owner for USA income tax purposes. According to the relevant applicable USA tax principles, members of Group B would file tax returns as one tax entity in USA. The management of the Group assessed whether sufficient future profits or taxable temporary differences will be available in the future on a combined basis for Group B and concluded that certain amount of the unused tax losses of Subsidiary A can be utilised. Accordingly, a deferred tax asset of RMB130 million (six months ended 30 June 2023: nil) had been recognised in respect of these losses in the six months ended 30 June 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	54	13
Other staff costs		
Salaries and other benefits	1,009	935
Contributions to retirement benefits schemes	83	69
Redundancy payments	24	26
	<u>1,170</u>	<u>1,043</u>
Amortisation of intangible assets	70	67
Depreciation of property, plant and equipment	95	95
Depreciation of right-of-use assets	38	36
	<u>203</u>	<u>198</u>
Auditor's remuneration		
— audit services	6	3
— non-audit services	11	—
	<u>17</u>	<u>3</u>
Cost of goods sold for education equipment and related goods	1,170	1,679
Advertising and promotion expenses (included in selling and marketing expenses)	183	188
Write-down of inventories	4	24

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

8. DIVIDENDS

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Dividends recognised as distribution during the period:		
2022 final dividend — Hong Kong dollar (“HKD”) 0.40 (2022: 2021 final dividend — HKD0.40) per share	191	177
2021 special interim dividend — HKD1.43 per share for the six months ended 30 June 2022 (2023: nil)	—	632
	<u>191</u>	<u>809</u>

Subsequent to the end of the current interim period, the directors of the Company have determined that a special interim dividend and an interim dividend of HKD1.0 per share and HKD0.4 per share, amounting to HKD531 million (equivalent to RMB490 million) and HKD212 million (equivalent to RMB196 million) respectively, will be paid to the shareholders of the Company whose names appear in the register of members on 14 September 2023.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Earnings for the purpose of basic and diluted earnings per share:		
— Profit for the period attributable to the owners of the Company	<u>500</u>	<u>565</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

9. EARNINGS PER SHARE (Cont'd)

	Number of shares	
	Six months ended 30 June	
	2023 (Unaudited) ' 000	2022 (Unaudited) ' 000
Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of treasury shares held under share award scheme)	539,186	541,201
Effect of dilutive potential shares from the Company's share option scheme	27	99
Weighted average number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of treasury shares held under share award scheme)	<u>539,213</u>	<u>541,300</u>

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

During the current interim period, the Group paid approximately RMB116 million (six months ended 30 June 2022: RMB89 million) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB24 million (six months ended 30 June 2022: RMB23 million) in plant and equipment and RMB82 million (six months ended 30 June 2022: RMB47 million) in construction in progress.

During the current interim period, the Group entered into several new lease agreements ranging from 2 to 5 years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets of RMB15 million (six months ended 30 June 2022: RMB6 million) and lease liabilities of RMB13 million (six months ended 30 June 2022: RMB6 million).

During the current interim period, the Group paid approximately RMB83 million (six months ended 30 June 2022: RMB56 million) for the acquisition of intangible assets to expand its operations. Included in the amount was the acquisition of cryptocurrencies of approximately United States dollar ("USD") 3 million (equivalent to RMB20 million) (six months ended 30 June 2022: USD300,000 (equivalent to RMB2 million)). During the six months ended 30 June 2023, the Group performed impairment assessment as a result of the market turmoil of cryptocurrencies that indicate that the impairment of relevant intangible assets may be reversed and recognised reversal of impairment loss of RMB43 million (six months ended 30 June 2022: impairment loss of RMB55 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Financial assets at FVTPL		
— Unlisted funds (Note a)	258	252
— Unlisted equity investments (Note b)	174	152
— Convertible promissory notes (Note c)	105	84
	<u>537</u>	<u>488</u>
Analysed for financial reporting purpose:		
Non-current	432	404
Current	105	84
	<u>537</u>	<u>488</u>
Derivative financial instruments (under current liabilities)		
— Unlisted warrants (Note d)	16	31
— Convertible and exchangeable option (Note 17)	—	—
	<u>16</u>	<u>31</u>

Notes:

- (a) The unlisted funds represent a portfolio of investments managed by fund managers, most of the portfolio assets are invested in the listed securities in Hong Kong and 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.
- (b) The unlisted equity investments represent the Group's investment in equity interests in six private entities, which engaged in investment in cryptocurrencies, tokens, blockchain-based assets and other digital assets.
- (c) The convertible promissory notes were issued by a private entity incorporated in USA, bearing an interest of 6.0% per annum, maturing in 2023 and convertible at the discretion of the Group, in whole or in part, from time to time, into ordinary shares of the issuing entity.
- (d) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

12. INVENTORIES

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Raw materials	6	5
Finished goods	575	802
	<u>581</u>	<u>807</u>

13. TRADE RECEIVABLES

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

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

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
0 — 30 days	527	334
31 — 60 days	228	183
61 — 90 days	41	66
Over 90 days	58	71
	<u>854</u>	<u>654</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Prepayments to suppliers	90	110
Prepayments for rented premises, utilities and server	70	50
Refundable rental and guarantee deposits (Note a)	83	91
Other receivables from agent for purchasing cryptocurrencies	62	80
Contract assets (Note b)	24	20
Prepayment for convertible and exchangeable bonds interest	54	52
Other tax recoverables	65	65
Government grant receivables	38	82
Others	122	88
	<u>608</u>	<u>638</u>
Analysed for financial reporting purpose:		
Non-current	80	89
Current	528	549
	<u>608</u>	<u>638</u>

Notes:

- (a) Included in refundable rental and guarantee deposits as at 30 June 2023 are balances of (i) RMB32 million (31 December 2022: RMB32 million) which represents deposits for existing and 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”) and (ii) RMB25 million (31 December 2022: RMB25 million) which represents deposit for technical support service paid to 福州天亮網絡技術有限公司 (Fuzhou Tianliang Network Technology Co., Limited).
- (b) The contract assets primarily relate to the Group’s right to consideration for work completed and not billed because the rights are conditional on the Group’s future performance in achieving specified milestones at the reporting date on the provision of mobile solution, products and marketing services and retention receivables on education equipment and related goods. The contract assets are transferred to trade receivables when the rights become unconditional.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

15. TRADE AND OTHER PAYABLES

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Trade payables (Note a)	629	680
Accrued staff costs	230	358
Government grants (Note b)	17	20
Other tax payables	32	34
Payables for purchase of property, plant and equipment	124	128
Consideration payables	26	29
Accrued expenses	85	65
Others (Note c)	157	218
	<u>1,300</u>	<u>1,532</u>
Analysed for financial reporting purpose:		
Non-current	16	19
Current	<u>1,284</u>	<u>1,513</u>
	<u>1,300</u>	<u>1,532</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

15. TRADE AND OTHER PAYABLES (Cont'd)

Notes:

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

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
0 — 90 days	421	301
91 — 180 days	117	300
181 — 365 days	35	24
Over 365 days	56	55
	<u>629</u>	<u>680</u>

- (b) The amount represents government grants which are subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for research and development costs to be incurred, which will be recognised in profit and loss when conditions are fulfilled and (ii) the costs incurred by the Group for purchasing property, plant and equipment, which will be recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure.
- (c) Others mainly represent advertising payables, office and server service expenses payables and other miscellaneous items for operating activities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

16. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounted to RMB703 million (six months ended 30 June 2022: RMB339 million). The bank borrowings as at 30 June 2023 carry interest at (i) one-month Hong Kong Interbank Offered Rate (“HIBOR”) plus 2.20% or 2.35% per annum, (ii) three-month Bloomberg Short-Term Bank Yield (“BSBY”) Rate two business days prior to date of borrowing plus 1.85%, (iii) the United States Prime Rate plus 0.85%, (iv) interest rate of 1.00% per annum or (v) one-year Loan Prime Rate of China less 0.55% to 0.75% per annum. The secured portion of the Group’s borrowings were secured by pledge of certain properties and right-of-use assets of the Group, personal guarantee provided by heirs of a deceased director of the Company, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

The bank borrowings as at 31 December 2022 carried interest at (i) one-month HIBOR plus 2.20% or 2.35% per annum, (ii) three-month BSBY Rate two business days prior to date of borrowing plus 1.35%, (iii) the United States Prime Rate plus 0.35% or 0.50%, (iv) interest rate of 1.00% per annum or (v) one-year Loan Prime Rate of China less 0.20% to 0.65% per annum. The secured portion of the Group’s borrowings were secured by pledge of certain properties and right-of-use assets of the Group, personal guarantee provided by a director of the Company, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

17. CONVERTIBLE AND EXCHANGEABLE BONDS

On 9 March 2020, Best Assistant Education Online Limited, an indirect non-wholly owned subsidiary of the Company, issued convertible and exchangeable bonds with an aggregate principal amount of USD150 million (equivalent to RMB1,039 million) to Nurture Education (Cayman) Limited (the “CEB Investor”). Simultaneously, the Company issued unlisted warrants to the CEB Investor in March 2020.

The warrants shall entitle the CEB Investor to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds bear interest accruing at a rate of 5% per annum on the aggregate principal amount of the convertible and exchangeable bonds and will be due on the fifth anniversary from the bond issue date. The convertible and exchangeable bonds are denominated in USD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

17. CONVERTIBLE AND EXCHANGEABLE BONDS (Cont'd)

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

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
At 1 January	1,333	1,085
Interest accrued	108	194
Settlement of interest	(26)	(50)
Exchange adjustments	54	104
	<u>1,469</u>	<u>1,333</u>
Less: Interest payable within one year (shown under current liabilities)	<u>(17)</u>	<u>(16)</u>
Amount shown under non-current liabilities	<u>1,452</u>	<u>1,317</u>

18. CONVERTIBLE PREFERRED SHARES

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

As at 30 June 2023 and 31 December 2022, the fair value of the convertible preferred shares is nil.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

19. SHARE CAPITAL OF THE COMPANY

	Number of shares	Nominal value	
		USD	RMB million
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2022, 30 June 2022, 31 December 2022, and 30 June 2023	<u>1,000,000,000</u>	<u>10,000,000</u>	<u>76</u>
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2022	545,245,308	5,452,453	40
Shares issued upon exercise of share options (Note a)	19,825	198	— #
Repurchase and cancellation of shares (Note b)	<u>(4,521,500)</u>	<u>(45,215)</u>	<u>— #</u>
At 30 June 2022 and 31 December 2022	<u>540,743,633</u>	<u>5,407,436</u>	<u>40</u>
Shares issued upon exercise of share options (Note a)	45,400	454	— #
Repurchase and cancellation of shares (Note b)	<u>(9,844,500)</u>	<u>(98,445)</u>	<u>(1)</u>
At 30 June 2023	<u>530,944,533</u>	<u>5,309,445</u>	<u>39</u>

less than RMB1 million

Notes:

- (a) During the six months ended 30 June 2023, 45,400 (six months ended 30 June 2022: 19,825) share options were exercised and as a result the same number of ordinary shares of the Company were issued.
- (b) During the six months ended 30 June 2023 and 2022, the Company repurchased its own shares through purchases on the Stock Exchange. The shares had been subsequently cancelled.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

20. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

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

	Number of share options
Outstanding as at 1 January 2022	6,658,917
Exercised during the year	(19,825)
Forfeited during the year	<u>(116,092)</u>
Outstanding as at 31 December 2022	6,523,000
Exercised during the period	(45,400)
Forfeited during the period	<u>(3,100)</u>
Outstanding as at 30 June 2023	<u>6,474,500</u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD17.48 in the current interim period (year ended 31 December 2022: HKD16.19). The Group recognised the total expenses of RMB2 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB4 million) in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

(ii) Share award scheme by the Company

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

The Group recognised reversal of expenses of approximately RMB1 million for the six months ended 30 June 2022 (six months ended 30 June 2023: nil) in relation to the Award.

Movements in the share awards granted during the year ended 31 December 2022 were as follows:

Name of category of participant	Date of grant	Outstanding at 1 January 2022	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2022
Other employees	19 April 2018	148,080	—	(87,420)	(60,660)	—
Director	19 April 2018	218,160	—	(190,890)	(27,270)	—
		<u>366,240</u>	<u>—</u>	<u>(278,310)</u>	<u>(87,930)</u>	<u>—</u>

No share award is granted or vested during the period ended 30 June 2023.

(iii) Share awarded by a subsidiary of the Company

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

The Group recognised the total expenses of less than RMB1 million for each of the six months ended 30 June 2023 and 2022 in relation to this share award.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million				
Financial assets						
Equity instruments at FVTOCI	5	6	Level 1	Quoted bid prices in an active market.	N/A	N/A
— Listed equity securities						
Equity instruments at FVTOCI	50	50	Level 3	Income approach — in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate.	Discount rate of 15.15% (31 December 2022: 12.84%).	The higher the discount rate, the lower the fair value.
— Unlisted equity securities						
Financial assets at FVTPL	258	252	Level 2	Price provided by the financial institutions with reference to underlying investment portfolios which have observable quoted price in active markets.	N/A	N/A
— Unlisted funds						
Financial assets at FVTPL	174	152	Level 3	Price provided by the general partner with reference to underlying investment portfolios.	Discount for lack of marketability used in valuation.	The higher the discount for lack of marketability used in valuation, the lower the fair value.
— Unlisted equity investments						
Financial assets at FVTPL	105	84	Level 3	Discounted cash flow method — cash flows discounted at unobservable yield curve reflecting credit risk of counterparties.	Discount rate of 17.00% (31 December 2022: 18.88%).	The lower the discount rate, the higher the fair value.
— Convertible promissory notes						
Financial liabilities						
Derivative financial instruments	—	—	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 47.61% (31 December 2022: 53.64%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
— Convertible and exchangeable option						
Derivative financial instruments	16	31	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 40.03% (31 December 2022: 41.33%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
— Unlisted warrants						
Convertible preferred shares	—	—	Level 3	Black-Scholes pricing model using key inputs: expected volatility.	Volatility 46.22% (31 December 2022: 53.26%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

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

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

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

Reconciliation of Level 3 fair value measurements

Reconciliation of Level 3 fair value measurements of financial assets:

	Equity instruments at FVTOCI RMB million	Financial assets at FVTPL RMB million
At 1 January 2022 (audited)	—	2
Additions	50	103
Fair value changes	—	(27)
Exchange adjustments	—	5
At 30 June 2022 (unaudited)	<u>50</u>	<u>83</u>
At 1 January 2023 (audited)	50	236
Additions	—	51
Fair value changes	—	23
Disposal	—	(41)
Exchange adjustments	—	10
At 30 June 2023 (unaudited)	<u>50</u>	<u>279</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

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

Reconciliation of Level 3 fair value measurements of financial liabilities:

	Derivative financial instruments RMB million
At 1 January 2022 (audited)	43
Fair value changes	(8)
Exchange adjustments	<u>1</u>
At 30 June 2022 (unaudited)	<u>36</u>
At 1 January 2023 (audited)	31
Fair value changes	<u>(15)</u>
At 30 June 2023 (unaudited)	<u>16</u>

Fair value gains or losses on derivative financial instruments are included in “fair value change on derivative financial instruments”.

Fair value measurements and valuation process

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

22. RELATED PARTY TRANSACTIONS

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

(a) Related party transactions and balances

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

Name of related parties	Relationship
Fuzhou 851	DJM, the immediate holding company of the Company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, has 100% equity interest in this entity.
雲啟智慧科技有限公司 ("iCloud Wisdom")	iCloud Wisdom is an associate of the Group which the Group holds 40% of the issued share capital in this entity.
福建省國騰信息科技有限公司 ("Guoteng")	Guoteng is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

22. RELATED PARTY TRANSACTIONS (Cont'd)

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

Nature of transactions	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Service revenue from Guoteng	(1)	(1)
Goods sold to iCloud Wisdom	—	(3)
Service revenue from iCloud Wisdom	—	(1)
	<u> </u>	<u> </u>

As at 30 June 2023, amounts due from joint ventures are RMB6 million (31 December 2022: RMB5 million). As at 30 June 2023 and 31 December 2022, the amounts due from joint ventures are not trade in nature, unsecured, non-interest bearing and repayable on demand.

Saved as disclosed above, the Group had continuing connected transactions during the period, including (i) service fee paid to Fuzhou 851 of RMB6 million (six months ended 30 June 2022: RMB6 million) and (ii) a lease agreement entered with Fuzhou 851 with the lease term till 2024 for the use of office premise located in the PRC. During the period, the Group have made repayment of the lease liabilities of RMB3 million (six months ended 30 June 2022: RMB3 million). As at 30 June 2023, the corresponding carrying amount of the lease liabilities is RMB4 million (31 December 2022: RMB7 million).

In addition, certain of the Group's borrowings are also secured by guarantees provided by heirs of a deceased director of the Company as at 30 June 2023 and by a director of the Company as at 31 December 2022 as set out in Note 16.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

22. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Compensation of key management personnel

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

	Six months ended 30 June	
	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Salaries, allowances and other short-term employee benefits	92	63
Share-based payments expense	2	3
	<u>94</u>	<u>66</u>

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

23. CAPITAL COMMITMENTS

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

	30 June 2023 (Unaudited) RMB million	31 December 2022 (Audited) RMB million
Capital expenditure in respect of:		
— Capital injection in joint ventures	614	606
— Acquisition of property, plant and equipment	393	252
— Properties under development projects	419	460
— Purchase of convertible promissory notes	—	14
	<u>1,426</u>	<u>1,332</u>