

網龍網絡控股有限公司

Stock Code: 777



Management Discussion and Analysis	2
Other Information	20
Report on Review of Condensed Consolidated Financial Statements	30



目錄

CONTENTS

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	32
Condensed Consolidated Statement of Financial Position	34
Condensed Consolidated Statement of Changes in Equity	36

Condensed Consolidated Statement of Cash Flows	38
Notes to the Condensed Consolidated Financial Statements	40



MANAGEMENT DISCUSSION AND ANALYSIS

(1) FINANCIAL HIGHLIGHTS AND REVIEW

2025 First Half Financial Highlights

- Revenue was RMB2.4 billion, representing a 27.9% decrease YoY.
- Revenue from the gaming and application services was RMB1.7 billion, representing 73.0% of the Group's total revenue, and reflecting an 18.1% decrease YoY but the performance has stabilised with a 4.3% decrease HoH.
- Revenue from Mynd.ai business was RMB641 million, representing 26.9% of the Group's total revenue and a 45.7% decrease YoY, reflecting the extended demand adjustment caused by economic uncertainty.
- Gross profit was RMB1.7 billion, representing a 24.7% decrease YoY, whereas gross profit margin increased 2.9 percentage points to 69.5% YoY.
- Operating expenses decreased by 15.6% YoY to RMB1.4 billion, reflecting the early impact of our cost reduction and efficiency improvement measures, which are expected to be fully realised in the second half of 2025.
- Profit attributable to owners of the Company was RMB30 million, representing a 92.5% decrease YoY affected by an impairment loss of intangible assets as of 30 June 2025 which is expected to fully reverse in the second half of 2025 based on the current market price, as well as one-off expenses associated with the staff optimisation plan. Excluding these two items, the decrease in adjusted profit attributable to owners of the Company significantly narrowed.
- The Company declared an interim dividend of HKD0.50 per ordinary share for the six months ended 30 June 2025.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Segmental Financial Highlights

(RMB million)	2025 First Half		2024 First Half	
	Gaming and application services	Mynd.ai business	Gaming and application services	Mynd.ai business
Revenue	1,738	641	2,121	1,180
Gross profit	1,498	163	1,849	351
Gross margin	86.2%	25.4%	87.2%	29.7%
Core segmental profit (loss)	501	(195)	688	(111)
Segmental operating expenses ¹				
– Research and development	(436)	(104)	(595)	(101)
– Selling and marketing	(197)	(139)	(210)	(139)
– Administrative	(330)	(118)	(324)	(200)

Note 1: Segmental operating expenses exclude unallocated expenses/income such as directors' emoluments and certain administrative expenses 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

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) maintained stable operations despite temporary challenges in the first half of 2025. The gaming business advanced its execution under the established ‘Evergreen Operation Plan’. While this led to short-term revenue fluctuations, gaming performance has now stabilised, showing only a marginal HoH decline in revenue. Meanwhile, Mynd.ai business was affected by external factors including increased tariffs and softening demand in its key markets. While challenges persist, our efforts to streamline operations and enhance cost efficiency have resulted in a 15.6% YoY reduction in the Company’s operating expenses with full impact anticipated in the second half of 2025 and beyond, paving the way for future profitability.

We are confident in our long-term sustainable growth and value-creation potential. With solid results from multiple strategic investments and robust cash reserves, we are well positioned to further our commitment of enhancing shareholder returns. The board (“Board”) of directors (“Directors”) of the Company has approved an interim dividend of HKD0.50 per ordinary share, representing an increase of 25% YoY, and a distribution of no less than HKD600 million to our shareholders over the next 12 months through a combination of dividend payments and share repurchases (Shareholder Return Program).

For the longer term of development, we fully embraced the new artificial intelligence (AI) era and upheld our vision of ‘Infinite Growth’, while further advancing the execution of our dual-focus strategy - ‘AI+Gaming’ and ‘AI+Education’. In the gaming sector, our evergreen flagship IP *Eudemons* continued to elevate content quality and launched a series of cross-over collaborations with cultural heritage projects and public welfare initiatives, leading to sustained growth in user engagement. Meanwhile, our *Conquer* IP delivered solid progress in overseas expansion and content monetisation. The ‘Content + Esports’ engine for *Heroes Evolved* IP proved to be a significant success. In the education sector, we implemented a systematic restructuring of our domestic EdTech businesses, sharpening our focus on core AI-powered projects such as country-level platforms, as well as the vocational education business. Our U.S.-listed subsidiary, Mynd.ai, successfully launched its next-generation integrated solution, ActivPanel 10® and Promethean ActivSuite® software, and reached an agreement to acquire an award-winning AI voice assistant technology, leveraging our vast user base to further enhance our SaaS offerings. In addition, we introduced Zhongke WengAI (“Wenge”), a leading AI large language model company in China, as a strategic shareholder of our Hong Kong-based subsidiary Cherrypicks to support its AI evolution. In August 2025, Cherrypicks and Wenge jointly released three co-developed AI applications: the international version of X-Agent (AI-powered zero-code enterprise agent factory), WiSky (multilingual intelligence platform with AI-powered social listening for global decisions), and YoYa (multimodal creative studio with AI-powered all-in-one intelligent audio-video synthesis). This milestone marks the first time that China’s core AI technologies have been brought to global markets under the lead of a Hong Kong enterprise. In early June of this year, we unveiled our strategy of empowering global digital education development through AI Content Factory at the United Nations High-level Expert Group Meeting in New York, as we move forward with partners to build a global education metaverse platform.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Gaming and Application Services Business

Revenue from our gaming and application services amounted to RMB1.7 billion in the first half of 2025, representing a decrease of 18.1% YoY and a slight decrease of 4.3% HoH. We remain committed to long-term operations and the development of evergreen IPs. While revenue experienced a temporary decline due to certain short-term factors, we continued to enhance player experience, drive user growth, and strengthen engagement - laying a solid foundation for the long-term sustainability of our gaming business. With the continued progress of business optimisation, segmental operating expenses have been effectively controlled, representing a decrease of 14.7% YoY, while core segmental profit rebounded HoH to RMB501 million, demonstrating strong resilience and positive recovery momentum.

In the gaming sector, the deployment of the AI Content Factory further enhanced operational efficiency: The overall workforce structure has been enhanced to further align with the AI era, thereby strengthening team capability and cohesion, which led to a 26.7% YoY reduction in R&D costs across the gaming and application service segment. Alongside cost optimisation, our "AI+" strategy has also significantly boosted our efficiency: different gaming teams under the same IP now collaborate more effectively through the AI Content Factory, achieving better integration and greatly enhancing cross-version content collaboration and automated generation capabilities. Our R&D and innovation efforts also closely align with the AI trends: Our major new title, *Code:MY*, started its closed beta testing for IP users in August 2025, with preparations for its official launch underway. The mobile game *Code:Alpha* is preparing to expand into multiple overseas markets. With the support of AI Content Factory, our flagship IP *Eudemons* will be able to efficiently roll out multi-language versions, opening new opportunities overseas. Meanwhile, *Legend of Eudemons* was successfully launched on several mini game platforms in the first half of 2025, further enhancing the IP's influence. In addition, our other self-developed IPs such as *Under Oath* and *Zero Online*, are scheduled for release through publishing and licensing partnerships, bringing in additional revenue. Looking forward, we are positioning the long-term R&D focus on AI-native games. We have already built preliminary capabilities in AIGC graphical design, multi-agent collaboration, intelligent NPC, closed-loop data iteration, data safety and compliance, planning to roll out prototypes by phases to lay the foundation for next-generation gaming innovation.

In the application services sector, we further advance our strategy of fully embracing the new AI era: Our domestic EdTech business will focus on core AI-powered projects such as country-level platforms, as well as vocational education business. In Thailand, our AI-driven vocational education project collaborated with the Ministry of Higher Education, Science, Research, and Innovation (MHESI) was officially launched, providing nationwide training in fields such as new electric vehicles for university students and the broader youth community. Supported by the World Bank, we signed a cooperation agreement with the Ministry of Secondary Education of Cameroon (MINESEC) to enhance digital education in the country, with the aim of improving education equity and teaching quality. Our Hong Kong-based subsidiary Cherrypicks successfully secured strategic investment from Wenge and will serve as its sole overseas commercialisation and go-to-market platform, facilitating the rollout of China's leading AI technologies in Hong Kong, Macau, and overseas markets. Wenge's "YaYi" large language model and its AI-Scientist Agent ranked first across two global AI Agent benchmarks in 2025, underscoring its world-class R&D capabilities. In August 2025, Cherrypicks and Wenge jointly launched AI applications including social listening and multimodal content creation tools globally. Leveraging Hong Kong's position as an international innovation and technology hub and its multilingual environment, these products will expand into overseas markets such as Southeast Asia, Europe, and the U.S. Beyond creating new revenue streams, this strategic partnership will further strengthen our AI capabilities and resources.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Gaming and Application Services Business (Cont'd)

Beyond the gaming and application services business, the strategic value of the Company's initiatives in frontier technologies and the AI+ ecosystem continues to materialise: Our investee in AI edge devices successfully launched a new generation of AI glasses, marking a key breakthrough in consumer applications. In cultural creativity and IP operations, the influence of our investee's flagship IP portfolio further expanded, driving stronger commercialisation. As of 30 June 2025, we hold approximately 12,000 units of Ethereum with fair value of RMB211 million based on the prevailing market value. Going forward, we will continue to focus our strategic investments on frontier technologies including AI, XR, robotics, and blockchain, as well as the cultural innovation sector, ensuring solid synergy effects with our core businesses.

Mynd.ai

Notwithstanding industry-wide softening throughout most of our key geographic markets, customer budget uncertainties, and increased tariffs, we are focused on positioning Mynd.ai for future success. The introduction of our next-generation integrated solution, ActivPanel 10® and Promethean ActivSuite® software, is the first step in the transformation of our core offerings designed to enhance cybersecurity, facilitate a seamless "plug and play" experience with customers' existing technology, and lower lifetime cost of ownership. The accelerated product portfolio evolution is further enabled and enhanced by our continued focus on various cost optimisation initiatives designed to improve our competitive positioning in the market and facilitate further investments in our business. On the investment front, we are very excited to highlight our entry into an agreement to acquire an award-winning AI voice assistant technology, which we expect to complete during the third quarter of 2025. We believe that this acquisition will allow us to accelerate and evolve our AI-enabled solution roadmap and significantly enhance the interaction of the full ecosystem of software and hardware offerings in a classroom.

The key financial highlights for Mynd.ai in the first half of 2025 are as follows:

- Revenue of RMB641 million compared to RMB1,180 million for the same period in the prior year, with the decrease primarily driven by declines in customer spending due to budgetary reductions caused by economic uncertainty
- Core segmental loss of RMB195 million, compared to a loss of RMB111 million for the same period in the prior year
- Cash flow from continuing operations decreased by RMB239 million compared to the same period in the prior year, with cash reserves of RMB208 million as of 30 June 2025
- Reduced outstanding indebtedness by RMB53 million since year end of 2024
- Management continuing to implement cost saving measures to mitigate effects of education technology market headwinds

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Development Milestones and Awards for the First Half of 2025

Corporate Development Milestones/Recognitions

Award Issuer	Name of the Award
Industry and Information Technology Bureau of Fuzhou (福州市工業和信息化局)	Leading Enterprise in Software Industry (軟件業龍頭企業)
Ministry of Industry and Information Technology (工業和信息化部)	2024 Leading Enterprise in Future Industry Innovation and Development (2024未來產業創新發展領導企業)
Fuzhou Changle District Committee of the Communist Party of China (中共福州市長樂區委) and the People's Government of Fuzhou Changle District (福州市長樂區人民政府)	Outstanding Contribution Award (卓越貢獻獎) and Innovation and Development Award (創新發展獎)
Science and Technology Department of Fujian Province (福建省科學技術廳)	Third Prize for Scientific and Technological Progress (科學進步三等獎)
World Institute of Sustainable Development Planners (全球永續發展規劃師學會)	Education Innovation & Technology – Rising Star Award at the “2025 Hong Kong Sustainable Development Innovation and Technology Awards” (2025香港永續發展創新科技大獎之「優質教育創新科技 – 新秀獎」)
Greater Bay Area Financiers Association (大灣區金融家協會)	Excellence in ESG Innovation Award of the Year (年度卓越 ESG 創新企業)
Roadshow China (路演中)	The 8th Excellence IR for “Best Capital Market Communication Award” and “Best ESG Award” (第八屆中國卓越IR「最佳資本市場溝通獎」及「最佳 ESG獎」)
Jinmen Finance (進門財經)	“Best Communication and Interaction Award” (「最佳交流互動獎」)
Hstong (華盛通)	Capital Market Influential Enterprise Award (具資本市場影響力企業獎項)
Red Dot	Red Dot Design Award 2025
Tech & Learning Awards of Excellence	Best of 2024

MANAGEMENT DISCUSSION AND ANALYSIS

(3) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2025, the Group had pledged bank deposits, bank deposits with original maturity over three months and cash and cash equivalents of approximately RMB3,772 million (31 December 2024: RMB3,827 million), of which 83.6%, 14.7% and 1.7% were denominated in RMB, USD and other currencies, respectively.

As at 30 June 2025, the Group had net current assets of approximately RMB1,211 million as compared with approximately RMB1,272 million as at 31 December 2024.

(4) TREASURY POLICY

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

(5) DEBT MATURITY AND CURRENCY PROFILE

The Group's total bank borrowings and other debts, including convertible and exchangeable bonds and convertible note, as at 30 June 2025 amounted to RMB2,670 million (31 December 2024: RMB2,420 million) which comprises principal amount of bank borrowings of RMB2,255 million (31 December 2024: RMB1,729 million), convertible and exchangeable bonds of nil (31 December 2024: RMB295 million) and convertible note of RMB415 million (31 December 2024: RMB396 million).

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

As at 30 June 2025

	Denominated in			Total
	RMB RMB million	USD RMB million	HKD RMB million	
On demand	500	–	48	548
Within one year	<u>1,650</u>	<u>472</u>	<u>–</u>	<u>2,122</u>
Total	<u><u>2,150</u></u>	<u><u>472</u></u>	<u><u>48</u></u>	<u><u>2,670</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 31 December 2024

	RMB	Denominated in		Total
	RMB million	USD RMB million	HKD RMB million	RMB million
On demand	300	–	49	349
Within one year	1,300	771	–	2,071
Total	1,600	771	49	2,420

(6) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.40 (31 December 2024: 0.29). As at 30 June 2025, total bank borrowings of the Group amounted to approximately RMB2,255 million (31 December 2024: RMB1,729 million) which included variable-rate loan of RMB205 million (31 December 2024: RMB128 million) and fixed-rate loan of RMB2,050 million (31 December 2024: RMB1,601 million). The bank borrowings of RMB2,255 million (31 December 2024: RMB1,718 million) were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group and corporate guarantee provided by the Company and its subsidiaries, no bank borrowings (31 December 2024: RMB11 million) as at 30 June 2025 were unsecured.

(7) CAPITAL STRUCTURE

As at 30 June 2025, the Group's total equity amounted to approximately RMB5,587 million (31 December 2024: RMB5,866 million).

(8) CONTINGENT LIABILITIES

As at 30 June 2025 and 31 December 2024, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures for the six months ended 30 June 2025.

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

(10) FOREIGN CURRENCY RISKS

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

(11) CREDIT RISKS

As at 30 June 2025, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(11) CREDIT RISKS (Cont'd)

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

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

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

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

(12) LIQUIDITY RISK

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

MANAGEMENT DISCUSSION AND ANALYSIS

(13) STAFF INFORMATION

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

	As at 30 June 2025	As at 31 December 2024	As at 30 June 2024 (Restated)
Research and development	1,556	2,505	3,165
Selling and marketing	539	669	772
Accounting, finance and general administration	793	856	907
Production	520	563	1,279
Total	3,408	4,593	6,123

(14) PERFORMANCE EVALUATION

Human Resources

1. As of 30 June 2025, the total number of employees of the Group is 3,408.
2. As an internet technology company committed to ambitious growth, we are continuously promoting the deep integration of digital transformation and AI technologies to accelerate our transition into a new type of AI-based organisation. In the first half of the year, we focused on building our organisational structure around the AI Content Factory. This transformation, not merely a technological upgrade, entails profound changes in organisational model, ways of working and talent management.

MANAGEMENT DISCUSSION AND ANALYSIS

(14) PERFORMANCE EVALUATION (Cont'd)

Human Resources (Cont'd)

3. *Organisational construction centered on the goal of building an "AI-based organisation" to deepen and upgrade our operational model*

In 2025, the Company has advanced the development of the AI Content Factory across all business segments, including education and gaming, to establish a new "AI-led, human-machine collaborative" production model. AI serves as the core driver of production and execution, while our experts act as "AI trainers", leveraging their professional expertise to design and optimise the AI Content Factory, and building a "most powerful expert knowledge base" for the AI Productions Center. Currently, the Company has developed a fully functional and comprehensive AI-powered production center for educational content. In the gaming segment, an AI Content Factory has been established across core value chains, with its application scope continuously expanding. The development of the AI Content Factory has driven significant improvement in our production efficiency and content quality.

In addition, all departments have also been continuously improving and deepening the integration of AI into daily operations. Simple, repetitive, and executed-oriented tasks are handled by AI, while expert systems are used to combine internal best practices with AI technology. This has not only enhanced standardisation and automation across workflow, but also enabled accumulation, retention, inheritance and upgrading of AI organisational capabilities, which contributed to improvement in operational effectiveness throughout the Company.

4. *Driving talent upgrade in line with the goal of building an AI-based organisation to continuously increase the density of middle and senior-level talents and enhance AI capabilities*

In the first half of the year, the Company implemented a series of talent upgrade measures with a focus on building an AI-based organisation. **In terms of talent standards**, talent categories and profiles have been defined for an AI-based organisation, clarifying learning ability and AI competency as key screening criteria in "talent selection, deployment, cultivation and retention". **In terms of talent acquisition**, we increased the number of AI-related positions and offered favourable compensation packages to strengthen our appeal to AI professionals. **In terms of talent cultivation**, we provided more training resources, learning platforms and AI bots platforms to comprehensively enhancing employees' capabilities in training and utilizing AI. **In terms of talent structure**, we implemented a series of measures for talent assessments and inventory review to raise continuously the proportion of middle and senior-level talents, fostering more capable teams.

MANAGEMENT DISCUSSION AND ANALYSIS

(14) PERFORMANCE EVALUATION (Cont'd)

Human Resources (Cont'd)

5. *Upgrading task-oriented management model and exploring AI/electronic management*

The Company continued to implement its “task-oriented” management model. In the first half of 2025, with the support of AI/electronic, the Company has implemented this model more thorough than ever. Centered around a task acceptance criteria system, this model breaks down tasks into measurable sub-tasks and enables end-to-end management from task assignment, acceptance, execution to acceptance through electronic platforms.

By leveraging digitalisation to establish a self-management loop, an intelligent matching and recommendation system based on “task tags + talent tags” has been built. This system breaks down tasks and automatically assigns them to suitable employees, who may voluntarily take on tasks based on the tags and personal interests. This facilitates a transition from “top-down assignment” to “employee self-selection”, enhancing employees’ autonomy and motivation while breaking away from traditional “role rigidity” and in turn achieves AI-enabled self-management. AI automatically calculates performance results based on data of task acceptance of employees generated within the assessment cycle. Employees and managers can supplement and rectify the information. At the same time, the task acceptance data so generated also serves as the primary basis for salary adjustments, promotion recommendations and bonus payment.

6. *The metaverse organisational ecosystem has begun to take shape, and continually expanding the boundaries of an open organisational structure*

Our AI organisation is built around a task-oriented model, rapidly forming virtual teams that break traditional boundaries to focus on core tasks or projects, which enables highly efficient collaboration and achieving business or project goals. In the first half of the year, the Company released and delivered over 1,200 business orders to the public, attracting more than 500 high-quality teams and individuals from around the world to participate in value creation as metaverse partners. For expansion of metaverse resources and channel, we continued our collaborations with major colleges and universities in China to create premium educational resources with both faculty and students. For mechanism establishment, we have implemented a system to transition former employees into metaverse partners. By establishing such open organisational structure, we have eliminated geographical limitations in talent and capability acquisition, enabling elites worldwide to support our operations.

As the Company is transitioning into an AI-based organisation, the future work model will be defined by “humans and AI work together”. Our workforce composition will include full-time employees, AI employees and metaverse partners. Through highly efficient human-AI collaboration, we will effectively reduce operating costs and create sustainable growth momentum for the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

(15) STAFF TRAININGS

The Group is an enterprise dedicated to promoting the development of education through technology, which highly values the development and training work of staff and formulated a series of policies and measures aimed at enhancing employees' knowledge and skills required to perform their job duties. Since 2025, staff training programs have covered multiple critical areas, from frontier technological knowledge such as the AI Content Factory concept and large language model technologies to practical skills for end-to-end project management, which have established a comprehensive and in-depth learning system. The overall rationale is tightly structured around four core pillars: the integration of technological innovation, standardised project execution, efficient team collaboration and the enhancement of employees' comprehensive competency. A hierarchical and categorised training approach has been adopted strategically, structuring courses into areas such as emerging technologies and project official website certification requirements to meet the needs and career development paths of employees across different roles. Meanwhile, emphasising the transformation and application of training results and encouraging employees to continue learning and keeping up through results-oriented assessment to ensure timely feedback on training effects. We value greatly the teaching of theoretical knowledge and emphasise the cultivation of practical operation and innovative ability through corporate staff training which we are committed to provide a systematic and personalised plan to improve the comprehensive quality and professional ability of employees in all aspects.

1. In-house training

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

In the first half of 2025, we sorted out 3,083 tasks, 1,437 of which have completed task definitions and SOP productions; 1,375 of which have completed matching corresponding task tools. Through a complete set of task tools and relevant training, staff can learn how to use each task tool in the form of on-demand learning, instead of having to fully understand and master the entire concept, which greatly reduces the implementation threshold of each task.

In the first half of 2025, the online learning platform launched 89 courses which 857 students participated in the learning, with a total learning time of 1,056 hours and an average learning time of 1.23 hours per person. Students have gained related knowledge of the concept of the digitalisation of corporate tasks, general skills and special skills through the learning platform.

MANAGEMENT DISCUSSION AND ANALYSIS

(15) STAFF TRAININGS (Cont'd)

2. Professional skills training

The concept of the AI Content Factory: the course attracted 474 participants, with the total working hours of 711 hours and the average working hours of 1.5 hours per participant. Through this course, employees have gained a thorough understanding and an alignment with the approach of the AI Content Factory of the Company, and are able to proactively apply this methodology to accomplish tasks. At the same time, based on the concept of the AI Content Factory, the selection and assessment management of education line employees has been re-valuated.

DeepSeek: technology evolution path and industry opportunities: A total of 110 participants attended the program, with the total working hours of 209 hours and the average working hours of 1.9 hours per participant. Through this program, employees gained insight into the technological evolution path of DeepSeek and the industrial opportunities brought by large models, which developed a clearer understanding of large models such as DeepSeek, helping the employees better support their work and life.

3. Project official website certification development

In the first half of 2025, the Group focused on matters related to project official websites and promote the development of role-specific certification process. These practices aim to enhance employees' professional capability to handle relevant matters and ensure the quality and efficiency of execution through a standardised certification system.

3.1. Definition of role-specific certification

- Under the task-oriented management philosophy of the Company, role-specific certification refers to a process that any individual can obtain a relevant credential or qualification tag for a task after completing designated training, passing assessments and receiving formal certification. Employees are qualified to undertake the corresponding task with the relevant credential.

3.2 Purpose of certification

- To assess whether the applicant has acquired the pre-requisite knowledge or awareness to perform the task or utilise task-related tools.
- To assess whether the applicant understands how to execute the task or utilise the tools and is capable of delivering qualified outputs.

MANAGEMENT DISCUSSION AND ANALYSIS

(15) STAFF TRAININGS (Cont'd)

3. Project official website certification development (Cont'd)

3.3 Certification Instructions

- Once a certification is launched, if relevant credential is not obtained by the specified date, it may affect the logging of work hours related to the task.
- Each certification consists of one theory or awareness exam and one practical simulation exam. Corresponding certificate will be awarded upon passing of both examinations.

The role-specific certification programs related to project websites focus on key tasks throughout project execution. Through setting clear certification standards and procedures, the programs encourage employees to enhance their professional skills, ensure project-related matters to be handled consistently and efficiently, and provide strong support for smooth implementation of the projects of the Company.

4. Heart sign-in

As one of the important corporate cultures of the Company, heart sign-in helps project leaders and management to organise and record their thoughts on the project or 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 2025, 18,241 heart sign-ins were published by the heart sign-in club, with a total of 602 participant engagements and pageviews reaching 4,750,186. We let all the students of the Company not only experience the corporate culture, but also learn about strategy, technology, management, product, design, operation and other aspects through heart sign-in method to help them grow better.

MANAGEMENT DISCUSSION AND ANALYSIS

(16) CORPORATE CULTURE

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



Passion

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



Learning

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



Innovation

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



Endeavor

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



Pursuit of Excellence

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



Fairness

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



Customer-orientation

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

MANAGEMENT DISCUSSION AND ANALYSIS

(17) INTERIM DIVIDEND

On 28 August 2025, the Board resolved to declare an interim dividend of HKD0.50 per share for the six months ended 30 June 2025 (2024: interim dividend of HKD0.40 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 12 September 2025. It is expected that the interim dividend will be distributed on or around 31 October 2025.

(18) CLOSURE OF REGISTER OF MEMBERS

The record date for the interim dividend will be Friday, 12 September 2025. The register of members of the Company will be closed from Friday, 12 September 2025 to Monday, 15 September 2025, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2025, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 11 September 2025.

OTHER INFORMATION

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

As at 30 June 2025, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

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)	40.73%
Leung Lim Kin, Simon (Note 3)	The Company	Beneficial owner and beneficiary of a trust	6,139,040 (L)	1.16%
Liu Luyuan (Note 2)	The Company	Beneficial owner and founder of a trust	216,384,938 (L)	40.73%
Liu Luyuan	Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)")	Beneficial owner	RMB21,311,000 (L)	0.07%
Chen Hongzhan (Note 4)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.11%
Lin Yun (Note 5)	The Company	Beneficial owner	1,211,100 (L)	0.23%
Liu Sai Keung, Thomas (Note 6)	The Company	Beneficial owner	500,019 (L)	0.09%
Li Sing Chung, Matthias (Note 7)	The Company	Beneficial owner	2,000 (L)	0.0004%

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

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 100% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 35.97% of the issued voting shares of the Company (the "Share(s)"). Liu Dejian is also interested in 0.39% of the Shares which is represented by beneficial interest of 1,884,000 Shares and a beneficiary of a trust of 197,019 Shares.

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

Pursuant to the concert party agreement between Liu Dejian and Liu Luyuan, Liu Dejian and Liu Luyuan are deemed to be interested in 40.73% of the Shares through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian and their respective shares held as beneficial owner in each of their personal capacities.

3. Leung Lim Kin, Simon is interested in 1.16% of the Shares which is represented by beneficial interest of 1,899,040 Shares, a beneficiary of a trust of 240,000 Shares, and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.
4. Chen Hongzhan is interested in 2.11% of the Shares which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 Shares.
5. Lin Yun is interested in 0.23% of the Shares which is represented by personal interest of 1,211,100 Shares.
6. Liu Sai Keung, Thomas is interested in 0.09% of the Shares which is represented by personal interest of 300,019 Shares and the rest being underlying shares of interest of 200,000 share options granted by the Company.
7. Li Sing Chung, Matthias is interested in 0.0004% of the Shares which is represented by personal interest of 2,000 Shares.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2025, 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 2025, 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)	35.97%
IDG Group (Note 2)	The Company	Beneficial owner	34,504,320 (L)	6.49%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	34,504,320 (L)	6.49%
Zhou Quan (Note 2)	The Company	Through controlled corporations	32,808,018 (L)	6.18%
Zheng Hui (deceased) (Note 3)	The Company	Beneficial owner and through controlled corporations	34,437,519 (L)	6.48%

Notes:

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

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%, 3.43%, 0.70% and 0.31% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investors Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. Reference is made to the announcement of the Company dated 9 June 2023 in relation to the passing away of Zheng Hui, a former executive Director.

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group as at 30 June 2025.

SHARE SCHEMES

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

As at 30 June 2025, no share options and 360,000 awarded shares were granted under the Existing Share Schemes, the total number of share options and awarded shares available for grant under the Existing Share Schemes shall not exceed 52,766,253, representing 9.93% of the Shares of the Company, the total number of share options and awarded shares available for grant to the service providers (as defined under the Existing Share Schemes) under the Existing Share Schemes shall not exceed 5,312,625, representing 1% of the Shares of the Company.

OTHER INFORMATION

SHARE SCHEMES (Cont'd)

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

Share Option Scheme

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

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

As at 30 June 2025, no share options were granted under the 2024 Share Option Scheme. Details of the movements of the outstanding share options under the 2008 Share Option Scheme and the 2018 Share Option Scheme during the six months ended 30 June 2025 are as follows:

2008 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at					As at
			1 January	Number of share options				30 June
			2025	Granted	Exercised	Cancelled	Lapsed	2025
Independent non-executive Directors								
Lee Kwan Hung, Eddie (retired on 5 June 2025)	31.03.2017	23.65	100,000	–	–	–	100,000	0
Liu Sai Keung, Thomas	31.03.2017	23.65	100,000	–	–	–	–	100,000
Others								
Employees	31.03.2017	23.65	100,000	–	–	–	100,000	0
Total			300,000	–	–	–	200,000	100,000

OTHER INFORMATION

SHARE SCHEMES (Cont'd)

Share Option Scheme (Cont'd)

2018 Share Option Scheme

Grantee	Date of grant	Exercise Price HKD	As at					As at
			1 January	Number of share options				30 June
			2025	Granted	Exercised	Cancelled	Lapsed	2025
Executive Director								
Leung Lim Kin, Simon	24.01.2020	21.07	4,000,000	–	–	–	–	4,000,000
Independent non-executive Directors								
Lee Kwan Hung, Eddie (retired on 5 June 2025)	24.01.2020	21.07	100,000	–	–	–	100,000	0
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>1,100,000</u>	<u>0</u>
Total			<u>5,300,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,200,000</u>	<u>4,100,000</u>

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

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

OTHER INFORMATION

SHARE SCHEMES (Cont'd)

Share Award Scheme

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

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

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

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

As at 30 June 2025, 360,000 awarded shares were granted under the 2024 Share Award Scheme. Details of the outstanding awarded shares under the 2024 Share Award Scheme during the six months ended 30 June 2025 are as follows:

Grantee	Date of grant	Number of awarded shares						Vesting Period
		As at 1	Granted	Vested	Cancelled	Lapsed	As at 30	
		January 2025					June 2025	
Executive Director								
Leung Lim Kin, Simon	02.04.2025	–	360,000	120,000	–	–	240,000	02.04.2025 – 02.04.2027
		–	360,000	120,000	–	–	240,000	

Note 1: Purchase price is not applicable as the awarded shares under the 2024 Share Award Scheme are granted at nil consideration.

Note 2: The closing price of the Shares immediately before the date on which the awarded shares were granted on 2 April 2025 was HKD10.48.

Note 3: The weighted average closing price of the Shares immediately before the dates on which the awarded shares were vested was HKD10.48.

Note 4: The fair value of the awarded shares granted on 2 April 2025 was HKD4 million. It is determined based on the closing market price of the Shares as at the date of grant.

SHARE SCHEMES (Cont'd)

Share Award Scheme (Cont'd)

For the awarded shares granted under the 2024 Share Award Scheme, the amounts to be recognised as expenses are determined by reference to the fair value of the awarded shares granted, taking into account all market performance conditions such as the Company's share price and non-vesting conditions associated with the grants as at the date of grant, excluding the impact of any service and non-market performance vesting conditions. The total expense amount is recognised over the relevant vesting periods. At the end of each reporting period, the Group revises its estimates of the number of awarded shares that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

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

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

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

As at 30 June 2025, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistant and no warrants were converted into Shares of the Company. The unlisted warrant was expired on 8 March 2025. The Convertible and Exchangeable Bonds were matured on 9 March 2025 and redeemed by Best Assistant.

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 C3 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix C3 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2025.

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 C1 to the Listing Rules, except for the following deviations as explained:

Mr. Lee Kwan Hung, Eddie ("Mr. Lee") has retired and ceased to be an independent non-executive Director, chairman of the remuneration committee and the share award committee, member of the audit committee and the nomination committee of the Company with effect from 5 June 2025. For further details, please refer to the announcement of the Company dated 5 June 2025.

Following Mr. Lee's retirement, the total number of independent non-executive Directors was less than three and less than one-third of the Board as required under Rules 3.10(1) and 3.10A of the Listing Rules, which resulted in the non-compliance with Rules 3.10(1) and 3.10A of the Listing Rules. The composition of the audit committee of the Company does not meet the requirement under Rule 3.23.

The Company will seek suitable candidate to fill the vacancy of independent non-executive Director and member of the audit committee of the Company within three months from 5 June 2025 pursuant to Rule 3.11 and Rule 3.23 of the Listing Rules, and make further announcement as and when appropriate.

OTHER INFORMATION

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.

As at the date of this interim report, Audit Committee comprises two independent non-executive Directors, namely Li Sing Chung Matthias (the chairman of the Audit Committee), and Liu Sai Keung, Thomas.

The Company will seek suitable candidate to fill the vacancy of member of the Audit Committee within three months from 5 June 2025 pursuant to Rule 3.23 of the Listing Rules.

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 2025 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2025, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities (including any sale of treasury shares).

By Order of the Board

NetDragon Websoft Holdings Limited

Liu Dejian

Chairman

Hong Kong, 28 August 2025

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 set out on pages 32 to 74, which comprise the condensed consolidated statement of financial position as of 30 June 2025, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and notes to the condensed consolidated financial statements. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 August 2025

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2025

		Six months ended 30 June	
	NOTES	2025 (Unaudited) RMB million	2024 (Unaudited) RMB million
Revenue	4	2,381	3,301
Cost of revenue		(726)	(1,102)
Gross profit		1,655	2,199
Other income and gains	5(a)	89	130
Impairment loss under expected credit loss model, net of reversal		(4)	9
Selling and marketing expenses		(336)	(352)
Administrative expenses		(474)	(551)
Research and development costs		(540)	(696)
Other expenses and losses	5(b)	(279)	(103)
Share of results of associates and joint ventures		5	(2)
Operating profit		116	634
Interest income on pledged bank deposits		12	–
Exchange (loss) gain on pledged bank deposits, financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments		(8)	2
Fair value change on financial assets at fair value through profit or loss		(6)	77
Fair value change on derivative financial instruments		15	70
Finance costs		(67)	(81)
Profit before taxation		62	702
Taxation	6	(93)	(397)
(Loss) profit for the period	7	(31)	305

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2025

		Six months ended 30 June	
	NOTE	2025 (Unaudited) RMB million	2024 (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		16	1
Item that will not be reclassified to profit or loss:			
Fair value change on equity instruments at fair value through other comprehensive income		—	(12)
Other comprehensive income (expense) for the period		16	(11)
Total comprehensive (expense) income for the period		(15)	294
(Loss) profit for the period attributable to:			
— Owners of the Company		30	400
— Non-controlling interests		(61)	(95)
		(31)	305
Total comprehensive (expense) income for the period attributable to:			
— Owners of the Company		41	388
— Non-controlling interests		(56)	(94)
		(15)	294
		RMB cents	RMB cents
Earnings per share	9		
— Basic		5.57	75.46
— Diluted		5.57	75.46

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2025

	NOTES	30 June 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
Non-current assets			
Property, plant and equipment	10	2,268	2,315
Right-of-use assets	10	360	394
Investment properties		46	50
Goodwill		315	312
Intangible assets	10	720	784
Interests in associates and joint ventures		63	50
Equity instruments at fair value through other comprehensive income		8	8
Financial assets at fair value through profit or loss	11	415	516
Loan receivables		21	29
Other receivables, prepayments and deposits	14	282	288
		4,498	4,746
Current assets			
Properties under development		71	70
Properties for sale		264	272
Inventories	12	216	238
Financial assets at fair value through profit or loss	11	289	191
Loan receivables		158	125
Trade receivables	13	447	454
Bills receivables		–	1
Other receivables, prepayments and deposits	14	479	469
Tax recoverable		31	39
Pledged bank deposits		1,646	1,114
Bank deposits with original maturity over three months		425	215
Cash and cash equivalents		1,701	2,498
		5,727	5,686

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2025

	NOTES	30 June 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
Current liabilities			
Trade and other payables	15	1,271	1,284
Contract liabilities		333	454
Lease liabilities		54	58
Provisions		114	113
Derivative financial instruments	11	6	21
Bank borrowings	16	2,255	1,729
Convertible and exchangeable bonds	17	–	295
Convertible note	18	415	396
Tax payable		68	64
		<u>4,516</u>	<u>4,414</u>
Net current assets		<u>1,211</u>	<u>1,272</u>
Total assets less current liabilities		<u>5,709</u>	<u>6,018</u>
Non-current liabilities			
Other payables	15	4	5
Lease liabilities		48	71
Deferred tax liabilities		70	76
		<u>122</u>	<u>152</u>
Net assets		<u>5,587</u>	<u>5,866</u>
Capital and reserves			
Share capital	19	39	39
Share premium and reserves		5,580	5,788
Equity attributable to owners of the Company		5,619	5,827
Non-controlling interests		(32)	39
		<u>5,587</u>	<u>5,866</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2025

	Attributable to owners of the Company															
												Equity instruments at fair value through other comprehensive				
	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	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 2024 (audited)	39	1,599	9	73	10	833	193	22	(3)	51	(51)	(28)	3,148	5,895	279	6,174
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	400	400	(95)	305
Other comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	-	(12)	-	(12)	1	(11)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	-	(12)	400	388	(94)	294
Acquisition of additional/disposal of partial equity interest of subsidiaries without losing control	-	-	-	(9)	-	3	-	-	-	-	-	-	22	16	(21)	(5)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	8	-	-	-	8	-	8
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	2
Final dividend for 2023 declared	-	-	-	-	-	-	(193)	-	-	-	-	-	-	(193)	-	(193)
Interim dividend for 2024 proposed	-	(194)	-	-	-	-	194	-	-	-	-	-	-	-	-	-
At 30 June 2024 (unaudited)	39	1,405	9	64	10	836	194	22	(3)	59	(51)	(40)	3,570	6,114	166	6,280
At 1 January 2025 (audited)	39	1,159	9	107	10	938	246	22	(3)	51	(35)	(54)	3,338	5,827	39	5,866
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	30	30	(61)	(31)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	11	-	-	11	5	16
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	11	-	30	41	(56)	(15)
Acquisition of additional equity interest from non-controlling interest	-	-	-	(1)	-	-	-	-	-	-	-	-	-	(1)	(2)	(3)
Awarded shares vested to employees	-	-	-	-	-	-	-	-	2	(1)	-	-	(1)	-	-	-
Recognition of equity-settled share-based payments, net of share options forfeited	-	-	-	-	-	-	-	-	-	(12)	-	-	13	1	7	8
Disposal of subsidiaries	-	-	-	(3)	-	-	-	-	-	-	-	-	-	(3)	(22)	(25)
Contribution from a non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	2
Final dividend for 2024 declared	-	-	-	-	-	-	(246)	-	-	-	-	-	-	(246)	-	(246)
Interim dividend for 2025 proposed	-	(242)	-	-	-	-	242	-	-	-	-	-	-	-	-	-
At 30 June 2025 (unaudited)	39	917	9	103	10	938	242	22	(1)	38	(24)	(54)	3,380	5,619	(32)	5,587

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025

	Six months ended 30 June	
	2025 (Unaudited) RMB million	2024 (Unaudited) RMB million
OPERATING ACTIVITIES		
(Loss) profit for the period	(31)	305
Adjustments for:		
Taxation	93	397
Interest income on pledged bank deposits, bank balances, loan receivables and refundable rental deposits	(33)	(26)
Fair value change on derivative financial instruments	(15)	(70)
Fair value change on financial assets at fair value through profit or loss	6	(77)
Fair value change in investment properties	4	13
Gain on disposal of intangible assets	–	(51)
Amortisation of intangible assets	90	85
Depreciation of property, plant and equipment	101	107
Depreciation of right-of-use assets	40	60
Impairment loss of intangible assets	92	–
Interest expense on bank borrowings (included in finance costs)	18	26
Interest expense on convertible and exchangeable bonds and convertible note (included in finance costs)	41	48
Others	(20)	5
Operating cash flows before movements in working capital	386	822
Decrease (increase) in trade receivables	34	(30)
Decrease in inventories	17	138
Decrease in properties for sale	8	–
Increase in other receivables, prepayments and deposits	(21)	(175)
Decrease in trade and other payables	(247)	(203)
Decrease in contract liabilities	(120)	(112)
Decrease in provisions	(3)	(17)
Cash generated from operations	54	423
Interest paid	(34)	(56)
Income tax paid	(83)	(108)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(63)	259

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

		Six months ended 30 June	
	NOTES	2025 (Unaudited) RMB million	2024 (Unaudited) RMB million
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(55)	(66)
Placement of bank deposits with original maturity over three months		(318)	(100)
Withdrawal of bank deposits with original maturity over three months		108	214
Placement of pledged bank deposits		(1,293)	(310)
Withdrawal of pledged bank deposits		761	–
Purchase of intangible assets	10	(341)	(289)
Proceeds from disposal of intangible assets		233	341
Interest received		31	27
Purchase of financial assets at fair value through profit or loss		(1,417)	(2,097)
Proceeds from disposal of financial assets at fair value through profit or loss		1,435	2,030
Other investing activities		(40)	3
NET CASH USED IN INVESTING ACTIVITIES		(896)	(247)
FINANCING ACTIVITIES			
New bank borrowings raised	16	1,242	863
Repayment of bank borrowings	16	(706)	(580)
Repayment of lease liabilities		(32)	(53)
Dividend paid		–	(65)
Redemption of convertible and exchangeable bonds	17	(293)	–
Acquisition of partial interest of subsidiaries		(3)	(9)
NET CASH FROM FINANCING ACTIVITIES		208	156
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(751)	168
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		2,498	2,241
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(46)	(27)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		1,701	2,382

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are engaged in (i) gaming and application services; (ii) overseas education business (“Mynd.ai business”); and (iii) property development business.

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

2. BASIS OF PREPARATION

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

3. ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2025 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2024.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

3. ACCOUNTING POLICIES (Cont'd)

Application of amendments to HKFRS Accounting Standards

In the current interim period, the Group has applied the following amendments to a HKFRS Accounting Standard issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual periods beginning on 1 January 2025 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 21

Lack of Exchangeability

The application of the amendments to a HKFRS Accounting Standard in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

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

Types of goods and services

Revenue from sales of pre-paid game cards
for online and mobile games
Sales of education equipment and related
goods
Revenue from educational services
Revenue from provision of mobile solution,
products and marketing services
Revenue from property development

Six months ended 30 June 2025 (Unaudited)			
Gaming and application services RMB million	Mynd.ai business RMB million	Property development RMB million	Total RMB million
1,528	–	–	1,528
60	622	–	682
119	19	–	138
31	–	–	31
–	–	2	2
<u>1,738</u>	<u>641</u>	<u>2</u>	<u>2,381</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

Types of goods and services (Cont'd)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025 (Unaudited)			
Gaming and application services	Mynd.ai business	Property development	Total
RMB million	RMB million	RMB million	RMB million
A point in time	1,588	622	2
Over time	150	19	–
	<u>1,738</u>	<u>641</u>	<u>2</u>
	<u>1,738</u>	<u>641</u>	<u>2,381</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

Geographical information

	Six months ended 30 June 2025 (Unaudited)			
	Gaming and application services	Mynd.ai business	Property development	Total
	RMB million	RMB million	RMB million	RMB million
Mainland China	1,486	–	2	1,488
United States of America ("USA")	205	453	–	658
Europe (Note)	–	154	–	154
Singapore	–	– *	–	– *
Other regions	47	34	–	81
	<u>1,738</u>	<u>641</u>	<u>2</u>	<u>2,381</u>

* Less than RMB1 million

	Six months ended 30 June 2024 (Unaudited)			
	Gaming and application services	Mynd.ai business	Property development	Total
	RMB million	RMB million	RMB million	RMB million
Mainland China	1,828	–	–	1,828
USA	216	709	–	925
Europe (Note)	–	262	–	262
Singapore	–	136	–	136
Other regions	77	73	–	150
	<u>2,121</u>	<u>1,180</u>	<u>–</u>	<u>3,301</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 2025

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information

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

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

	Six months ended 30 June 2025 (unaudited)			
	Gaming and application services	Mynd.ai business	Property development	Total
	RMB million	RMB million	RMB million	RMB million
Segment revenue	<u>1,738</u>	<u>641</u>	<u>2</u>	<u>2,381</u>
Segment profit (loss)	<u>402</u>	<u>(237)</u>	<u>(7)</u>	<u>158</u>
Unallocated other income and gains				29
Unallocated corporate expenses and losses				<u>(125)</u>
Profit before taxation				<u>62</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

4. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

	Six months ended 30 June 2024 (unaudited)			
	Gaming and application services	Mynd.ai business	Property development	Total
	RMB million	RMB million	RMB million	RMB million
Segment revenue	<u>2,121</u>	<u>1,180</u>	<u>–</u>	<u>3,301</u>
Segment profit (loss)	<u>758</u>	<u>(71)</u>	<u>(4)</u>	683
Unallocated other income and gains				54
Unallocated corporate expenses and losses				<u>(35)</u>
Profit before taxation				<u>702</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 other income and gains and corporate expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
Gaming and application services	6,757	6,340
Mynd.ai business	1,598	1,932
Property development	762	757
Total segment assets	9,117	9,029
Unallocated	1,108	1,403
	10,225	10,432

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as certain financial assets at fair value through profit or loss ("FVTPL"), certain loan receivables, certain intangible assets, certain pledged bank deposits, 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 2025

5. OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES

(a) Other income and gains

	Six months ended 30 June	
	2025	2024
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Government grants (Note)	12	16
Interest income on bank balances, loan receivables, and refundable rental deposits	21	26
Gain on disposal of intangible assets	–	51
Net gain on disposal of subsidiaries	27	–
Others	29	37
	89	130

Note: Amounts mainly being (i) granted by the government in the PRC mainly for subsidising 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 RMB10 million (six months ended 30 June 2024: RMB12 million) for the six months ended 30 June 2025 and is recognised in profit or loss; and (ii) granted by the government in the PRC for the purchase of property, plant and equipment, which is recognised as deferred income and is recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure with an amount of RMB2 million (six months ended 30 June 2024: RMB4 million) for the six months ended 30 June 2025.

(b) Other expenses and losses

	Six months ended 30 June	
	2025	2024
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Redundancy payments	154	16
Fair value change in investment properties	4	13
Other tax and charges	18	20
Impairment loss of intangible assets	92	–
Others	11	54
	279	103

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

6. TAXATION

	Six months ended 30 June	
	2025	2024
	(Unaudited)	(Unaudited)
	RMB million	RMB million
The tax charge comprises:		
Hong Kong Profits Tax		
– Current period	<u>17</u>	<u>31</u>
PRC Enterprise Income Tax		
– Current period	74	85
– Under (over) provision in prior years	3	(8)
– Withholding tax	<u>2</u>	<u>–</u>
	<u>79</u>	<u>77</u>
Taxation in other jurisdictions		
– Current period	<u>2</u>	<u>2</u>
Deferred tax		
– Current period	<u>(5)</u>	<u>287</u>
	<u>93</u>	<u>397</u>

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

7. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging (crediting):

Staff costs:

Directors' emoluments

Other staff costs

Salaries and other benefits

Contributions to retirement benefits schemes

Share-based payments expense

Redundancy payments

Amortisation of intangible assets

Depreciation of property, plant and equipment

Depreciation of right-of-use assets

Total depreciation and amortisation

Cost of goods sold for education equipment and related goods

Advertising and promotion expenses (included in selling and marketing expenses)

Reversal of impairment of inventories

Impairment loss of properties for sale

Gain on disposal of intangible assets

Six months ended 30 June

2025 (Unaudited) RMB million	2024 (Unaudited) RMB million
17	15
790	1,055
73	97
7	8
154	16
1,041	1,191
90	85
101	107
40	60
231	252
484	805
165	160
(8)	–
6	–
–	(51)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

8. DIVIDENDS

	Six months ended 30 June	
	2025 (Unaudited) RMB million	2024 (Unaudited) RMB million
Dividends recognised as distribution during the period:		
2024 final dividend – Hong Kong dollar ("HKD") 0.50 (2024: 2023 final dividend – HKD0.40) per share	<u>246</u>	<u>193</u>

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.50 per share, amounting to HKD266 million (equivalent to RMB242 million), will be paid to the shareholders of the Company whose names appear in the register of members on 12 September 2025.

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	
	2025 (Unaudited) RMB million	2024 (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>30</u>	<u>400</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

9. EARNINGS PER SHARE (Cont'd)

	Number of shares	
	Six months ended 30 June	
	2025	2024
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of shares in issue during the period for the purpose of basic earnings per share and diluted earnings per share (after adjusted for the effect of unvested treasury shares held under share award scheme)	531,133	531,074

The computation of diluted earnings per share does not assume the exercise of the Company’s share options as the exercise price of these options was higher than the average market price for shares for both periods. Diluted earnings per share also do not assume the exercise of the restricted stock units (“RSUs”) granted by Mynd.ai Inc. (“Mynd.ai”), a subsidiary of the Company, under the Mynd.ai Equity Incentive Plan (the “Mynd Incentive Plan”) as disclosed in Note 20 (iii), since the exercise of the RSUs would result in an increase in earnings per share for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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

During the current interim period, the Group paid approximately RMB55 million (six months ended 30 June 2024: RMB66 million) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB30 million (six months ended 30 June 2024: RMB20 million) in plant and equipment and RMB18 million (six months ended 30 June 2024: RMB40 million) in construction in progress.

During the current interim period, the Group entered into several new lease agreements ranging from 1 to 2 years (six months ended 30 June 2024: 2 to 3 years). The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets of RMB8 million (six months ended 30 June 2024: RMB142 million) and lease liabilities of RMB8 million (six months ended 30 June 2024: RMB141 million).

During the current interim period, the Group paid approximately RMB341 million (six months ended 30 June 2024: RMB289 million) for the acquisition of intangible assets, of which an amount of approximately United States dollar ("USD") 42 million (equivalent to RMB305 million) (six months ended 30 June 2024: USD33 million (equivalent to RMB234 million)) was for acquisition of cryptocurrencies. In addition, the Group disposed of certain cryptocurrencies with an aggregate carrying amount of USD32 million (equivalent to RMB233 million) (six months ended 30 June 2024: USD41 million (equivalent to RMB290 million)), resulting in a gain on disposal of less than RMB1 million (six months ended 30 June 2024: RMB51 million) during the current interim period. During the six months ended 30 June 2025, the Group performed impairment testing with reference to the market price of the corresponding cryptocurrencies as a result of the market turmoil of cryptocurrencies indicating that the relevant intangible assets may be impaired and recognised impairment loss of approximately RMB92 million (six months ended 30 June 2024: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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

	30 June 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
Financial assets at FVTPL		
– Unlisted funds (Note a)	377	479
– Unlisted equity investments (Note b)	35	37
– Listed securities	114	191
– Foreign currency forward contracts	22	–
– Structured deposits	106	–
– Film and program investments	50	–
	<u>704</u>	<u>707</u>
Analysed for financial reporting purpose:		
Non-current	415	516
Current	<u>289</u>	<u>191</u>
	<u>704</u>	<u>707</u>
Derivative financial instruments (under current liabilities)		
– Embedded derivatives in convertible note (defined in Note 18)	6	21
– Unlisted warrants (Note c)	–	–
	<u>6</u>	<u>21</u>

Notes:

- (a) The unlisted funds represent a portfolio of investments managed by fund managers. The portfolio assets are being invested in the listed securities or cryptocurrencies, tokens, blockchain-based assets and other digital assets. These investments are not held for trading, instead, they are held for long-term purposes. The Group is not expected to realise the funds within twelve months from the end of the reporting period. Therefore, the unlisted funds are classified as non-current assets.
- (b) The unlisted equity investments represent the Group's investments in equity interests in certain private entities.
- (c) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 17 and expired on 8 March 2025.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

12. INVENTORIES

	30 June 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
Finished goods	216	238

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
0 – 30 days	180	224
31 – 60 days	103	52
61 – 90 days	10	26
Over 90 days	154	152
	447	454

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
Prepayments to third parties (Note a)	134	149
Refundable rental and guarantee deposits (Note b)	49	48
Other receivables from agents for acquisition of cryptocurrencies	21	19
Contract assets (Note c)	18	22
Other receivables and deposits	132	105
Other tax recoverable	96	91
Government grant receivables	54	54
Prepayments for investments (Note d)	248	248
Others	9	21
	761	757
Analysed for financial reporting purpose:		
Non-current	282	288
Current	479	469
	761	757

Notes:

- (a) The amounts mainly represent prepayments for the operating activities of the Group, such as the purchase of goods and services, marketing and design fees and movie productions etc..
- (b) Included in refundable rental and guarantee deposits as at 30 June 2025 are balances of (i) RMB8 million (31 December 2024: RMB8 million) which represents deposits for lease contracts paid to a related company, 福州楊振華 851 生物工程技術研究開發有限公司 (Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.) ("Fuzhou 851"); and (ii) RMB15 million (31 December 2024: RMB15 million) which represents deposit for technical support service paid to 福州天亮網絡技術有限公司 (Fuzhou Tianliang Network Technology Co., Limited).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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

Notes: (Cont'd)

- (c) The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on the provision of mobile solution, products and marketing services and retention receivables on education equipment and related goods. The contract assets are transferred to trade receivables when the rights become unconditional.
- (d) Amounts being prepayments for certain investments whose completions are subject to certain terms and conditions as specified in relevant investment agreements. Out of the balance, RMB110 million (31 December 2024: RMB110 million) is non-refundable while the rest of the balance is refundable if certain conditions are not fulfilled during the pre-determined periods of time as set out in the respective investment agreements.

15. TRADE AND OTHER PAYABLES

	30 June 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
Trade payables (Note a)	338	382
Accrued staff costs	177	324
Deferred income (Note b)	7	9
Other tax payables	22	31
Payables for purchase of property, plant and equipment	165	166
Consideration payables	3	3
Accrued expenses	112	137
Dividend payable	242	–
Others (Note c)	209	237
	1,275	1,289
Analysed for financial reporting purpose:		
Non-current	4	5
Current	1,271	1,284
	1,275	1,289

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
0 – 90 days	224	171
91 – 180 days	50	142
181 – 365 days	12	23
Over 365 days	52	46
	338	382

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

16. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounted to RMB1,242 million (six months ended 30 June 2024: RMB863 million), and repaid bank loans amounted to RMB706 million (six months ended 30 June 2024: RMB580 million). The bank borrowings as at 30 June 2025 carry interest at (i) one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.20% or 2.35% per annum; (ii) Secured Overnight Financing Rate at date of borrowing plus 2.30%; (iii) one-year Loan Prime Rate of China less 0.85% to 0.87%; or (iv) interest rate of 0.98% to 3.30% per annum. The secured portion of the Group's borrowings were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

16. BANK BORROWINGS (Cont'd)

The bank borrowings as at 31 December 2024 carried interest at (i) one-month HIBOR plus 2.20% or 2.35% per annum; (ii) three-month Bloomberg Short-Term Bank Yield Rate two business days prior to date of borrowing plus 2.30%; or (iii) interest rate of 0.77% to 3.60% per annum. The secured portion of the Group's borrowings were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

17. CONVERTIBLE AND EXCHANGEABLE BONDS

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

The warrants shall entitle the Nurture Education to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds are exercisable at the option of bondholders, in whole or in part and can be exchangeable for ordinary shares of Mynd.ai at any time and from time to time during the exchange period. The convertible and exchangeable bonds bear interest accruing at a rate of 5.00% per annum on the aggregate principal amount of the convertible and exchangeable bonds and will be due on the fifth anniversary from the bond issue date. The convertible and exchangeable bonds are denominated in USD. At initial recognition, the convertible and exchangeable option was classified as derivative financial instrument. The fair value of the convertible and exchangeable option was insignificant and the carrying amount is recognised as nil at initial recognition and at 31 December 2024. The convertible and exchangeable option matured on 9 March 2025.

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
At 1 January	295	256
Redemption/settlement (Note)	(302)	(9)
Interest accrued	9	44
Exchange adjustments	(2)	4
	<u>-</u>	<u>295</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

17. CONVERTIBLE AND EXCHANGEABLE BONDS (Cont'd)

Note: During the period ended 30 June 2025, Best Assistant redeemed the remaining principal amount of USD25 million (equivalent to RMB179 million) at an aggregate consideration of USD42 million (equivalent to RMB302 million). Aggregate carrying amount of redeemed portion is approximately USD42 million (equivalent to RMB302 million). As a result, no loss of redemption of the convertible and exchangeable bonds had been recognised in profit or loss during the period ended 30 June 2025. During the period ended 30 June 2025, total cash outflows for the redemption payment net of interest prepaid in prior period amounted to approximately USD41 million (equivalent to RMB293 million).

18. CONVERTIBLE NOTE

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

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

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

The Convertible Note is denominated in USD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

18. CONVERTIBLE NOTE (Cont'd)

Convertible option

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

Embedded derivative features of the Convertible Note

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

At initial recognition, the embedded derivative of the Convertible Note was classified as derivative financial instrument (Note 11). The fair value of the derivative financial instrument was RMB21 million and RMB6 million at 31 December 2024 and 30 June 2025, respectively.

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

	30 June 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million
At 1 January	396	357
Interest accrued	32	57
Settlement of interest	(12)	(24)
Exchange adjustments	(1)	6
	<u>415</u>	<u>396</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

19. SHARE CAPITAL OF THE COMPANY

	Number of shares	Nominal value	
		USD	RMB million
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2024 (audited), 30 June 2024 (unaudited), 31 December 2024 (audited) and 30 June 2025 (unaudited)	<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 2024 (audited), 30 June 2024 (unaudited), 31 December 2024 (audited) and 30 June 2025 (unaudited)	<u>531,262,533</u>	<u>5,312,625</u>	<u>39</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

20. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company adopted share option schemes on 12 June 2008 (the "2008 Share Option Scheme"), 24 May 2018 (the "2018 Share Option Scheme") and 6 June 2024 (the "2024 Share Option Scheme"). The 2008 Share Option Scheme and the 2018 Share Option Scheme were terminated on 24 May 2018 and 6 June 2024 respectively. Subject to early termination, the 2024 Share Option Scheme shall be valid and effective for a period of 10 years from 6 June 2024. As at 30 June 2025, the outstanding share options under the 2008 Share Option Scheme and 2018 Share Option Scheme were 100,000 and 4,100,000 respectively. The outstanding share options granted under the 2018 Share Option Scheme and the 2008 Share Option Scheme shall remain valid and exercisable according to the terms of the schemes. As at 30 June 2025, no share option was granted under the 2024 Share Option Scheme. The purpose of the 2024 Share Option Scheme is to provide the eligible participant ("Eligible Participant") as defined in 2024 Share Option Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

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

	Number of share options
Outstanding as at 1 January 2024 and 31 December 2024	5,600,000
Forfeited during the period	(1,400,000)
Outstanding as at 30 June 2025	4,200,000

The Group recognised the total expenses of less than RMB1 million for the six months ended 30 June 2024 (six months ended 30 June 2025: nil) in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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

(ii) Share award scheme by the Company

The Company has adopted a share award scheme (the "2024 Share Award Scheme") on 6 June 2024 to replace the share award scheme adopted on 2 September 2008, whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The total expenses of RMB1 million were recognised by the Group for the six months ended 30 June 2025 (six months ended 30 June 2024: nil) in relation to the Award.

Movements in the awarded shares granted during the year ended 31 December 2024 and the six months ended 30 June 2025 were as follows:

		Outstanding at 1 January 2024 and 31 December 2024	Granted during the period	Awards vested during the period	Forfeited during the period	Outstanding at 30 June 2025
Name of category of participant	Date of grant					
Director	2 April 2025	–	360,000	(120,000)	–	240,000

The closing price of the shares immediately before the date on which the awards were granted to Dr. Leung Lim Kin, Simon on 2 April 2025 was HKD10.48.

The fair value of the awarded shares granted on 2 April 2025 was HKD4 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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

(iii) Equity incentive plan of a subsidiary of the Company

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

On 10 April 2024, the board of directors of Mynd.ai awarded RSUs under the Mynd Incentive Plan, representing an aggregate of 3,501,350 ADSs, to certain directors, executive officers and employees that vest over specified time periods, subject to the recipient's continued service. As at 30 June 2025, Mynd.ai had outstanding share-based awards representing 4,646,774 (30 June 2024: 3,461,171) ADSs.

During the six months ended 30 June 2025, Mynd.ai recorded share-based compensation expenses of RMB7 million (equivalent to USD1 million) (six months ended 30 June 2024: RMB8 million (equivalent to USD1 million)) in general and administrative expenses in the condensed consolidated statements of profit or loss and other comprehensive income. As at 30 June 2025, total unrecognised compensation expense related to unvested awards was RMB43 million (31 December 2024: RMB76 million), which is expected to be recognised over a weighted-average period of 1.96 years (31 December 2024: 2.20 years).

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date.
- 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 the lowest level inputs which are significant to the fair value measurement for the asset or liability that are not based on observable market data (significant unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million				
Financial assets						
Equity instruments at fair value through other comprehensive income ("FVTOCI") – Unlisted equity securities	8	8	Level 3	Income approach - in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate.	Discount rate of 12.64% (31 December 2024: 12.08%).	The higher the discount rate, the lower the fair value.
Financial assets at FVTPL – Listed securities	114	191	Level 1	Quoted bid prices in an active market.	N/A	N/A
Financial assets at FVTPL – Unlisted funds	148	246	Level 2	Price provided by the financial institutions with reference to underlying investment portfolios which have observable quoted price in active markets.	N/A	N/A
Financial assets at FVTPL – Foreign currency forward contracts	22	N/A	Level 2	Future discounted cash flows are estimated based on the applicable forward foreign exchange rates.	N/A	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million				
Financial assets (Cont'd)						
Financial assets at FVTPL – Structured deposits	106	N/A	Level 2	Price provided by the financial institutions with reference to foreign currency contracts.	N/A	N/A
Financial assets at FVTPL – Unlisted equity investment	11	11	Level 3	Binomial valuation model using key input: expected volatility.	Expected volatility 66.16% (31 December 2024: 69.13%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Financial assets at FVTPL – Unlisted equity investment	14	16	Level 3	Binomial valuation model using key input: expected volatility.	Expected volatility 56.41% (31 December 2024: 57.47%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Financial assets at FVTPL – Unlisted funds	229	233	Level 3	Price provided by the general partner with reference to underlying investment portfolios.	Discount for lack of marketability used in valuation.	The higher the discount for lack of marketability used in valuation, the lower the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million				
Financial assets (Cont'd)						
Financial assets at FVTPL – Film investment	3	N/A	Level 3	Income approach - in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate.	Discount rate of 13.37% (31 December 2024: N/A).	The higher the discount rate, the lower the fair value.
Financial assets at FVTPL – Program investment	11	N/A	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 17.14% (31 December 2024: N/A).	The higher the discount rate, the lower the fair value.
Financial assets at FVTPL – Film investment	36	N/A	Level 3	Income approach - in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate.	Discount rate of 13.86% (31 December 2024: N/A).	The higher the discount rate, the lower the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2025 (Unaudited) RMB million	31 December 2024 (Audited) RMB million				
Financial assets (Cont'd)						
Financial assets at FVTPL	10	10	Level 3	Binomial valuation model using key input: expected volatility.	Expected volatility 43.05% (31 December 2024: 38.76%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
– Unlisted equity investment						
Financial liabilities						
Derivative financial instruments	N/A	–	Level 3	Binomial valuation model using key input: expected volatility.	Expected volatility 65.48% at 31 December 2024 (30 June 2025: N/A) was 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	N/A	–	Level 3	Binomial valuation model using key input: expected volatility.	Expected volatility 24.27% at 31 December 2024 (30 June 2025: N/A) was estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
– Unlisted warrants						
Derivative financial instruments	6	21	Level 3	Binomial valuation model using key input: expected volatility.	Expected volatility 81.00% (31 December 2024: 68.00%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
– Convertible note						

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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 2024 (audited)	42	205
Fair value changes	(12)	53
Others	–	(4)
Exchange adjustments	–	1
	<u>30</u>	<u>255</u>
At 30 June 2024 (unaudited)		
At 1 January 2025 (audited)	8	270
Additions	–	86
Fair value changes	–	(41)
Exchange adjustments	–	(1)
	<u>8</u>	<u>314</u>
At 30 June 2025 (unaudited)		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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

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

Of the total fair value change on financial assets at fair value through profit or loss for the period included in profit or loss, RMB41 million loss (six months ended 30 June 2024: a gain of RMB53 million) related to unlisted equity investments, unlisted funds and film and program investments held at the end of the current reporting period. 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".

Included in other comprehensive income is an amount of RMB nil (six months ended 30 June 2024: a loss of RMB12 million) related to unlisted equity securities held at the end of the current reporting period and is reported as "fair value change on equity instruments at fair value through other comprehensive income".

Reconciliation of Level 3 fair value measurements of financial liabilities:

	Derivative financial instruments
	RMB million
At 1 January 2024 (audited)	107
Fair value changes	(70)
	<hr/>
At 30 June 2024 (unaudited)	37
	<hr/>
At 1 January 2025 (audited)	21
Fair value changes	(15)
	<hr/>
At 30 June 2025 (unaudited)	6
	<hr/>

Of the total fair value change on derivative financial instruments for the period included in profit or loss, RMB15 million gain related to convertible notes (six months ended 30 June 2024: RMB70 million gain related to convertible notes and unlisted warrants) held at 30 June 2025. Fair value gain on derivative financial instruments are included in "fair value change on derivative financial instruments".

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

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

Fair value measurements and valuation process

The board of directors of the Group has named the finance department, which is headed up by the Interim 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 Interim 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.

22. RELATED PARTY TRANSACTIONS

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

(a) Related party transactions and balances

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

22. RELATED PARTY TRANSACTIONS (Continued)

(a) Related party transactions and balances (Continued)

Nature of transactions	Six months ended 30 June	
	2025 (Unaudited) RMB million	2024 (Unaudited) RMB million
Promotional expense to Fuzhou Yanle	1	2
Education management fee to Fujian Data	4	2
Technical service fee to Guoteng	-	1
	<u>5</u>	<u>5</u>

As at 30 June 2025, amounts due from joint ventures and associates (included in other receivables, prepayments and deposits) are RMB9 million (31 December 2024: RMB10 million). As at 30 June 2025 and 31 December 2024, the amounts due from joint ventures and associates 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 RMB4 million for the six months ended 30 June 2024 (six months ended 30 June 2025: nil); and (ii) lease agreements entered with Fuzhou 851 with the lease term till 2027 for the use of office premise located in the PRC. During the period, the Group have made repayment of the lease liabilities of RMB15 million (six months ended 30 June 2024: RMB11 million). As at 30 June 2025, the corresponding carrying amount of the lease liabilities is RMB55 million (31 December 2024: RMB70 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2025

22. RELATED PARTY TRANSACTIONS (Continued)

(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	
	2025	2024
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Salaries, allowances and other short-term employee benefits	33	38
Share-based payments expense	1	–
	34	38

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	31 December
	2025	2024
	(Unaudited)	(Audited)
	RMB million	RMB million
Capital expenditure in respect of:		
– Capital injection in joint ventures	29	24
– Acquisition of property, plant and equipment	115	118
– Properties under development projects	29	374
	173	516