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NetDragon

## NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

#### BUSINESS REVIEW AND OUTLOOK

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

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

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

## Gaming Business

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

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

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

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

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

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

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

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

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

## **Mynd.ai**

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

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

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

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

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

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

## FINANCIAL HIGHLIGHTS AND REVIEW

### 2024 First Half Financial Highlights

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

## Segmental Financial Highlights

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

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

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

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



## Unaudited Reconciliation of GAAP and Non-GAAP Results

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

The board (the “Board”) of directors (the “Directors”) of the Company announced the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2024 together with the comparative figures in 2023 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2024

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



	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<i>NOTE</i>	<b>RMB million</b>	<b>RMB million</b>
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	<b>1</b>	61
Item that will not be reclassified to profit or loss:		
Fair value change on equity instruments at fair value through other comprehensive income	<u><b>(12)</b></u>	<u>(1)</u>
Other comprehensive (expense) income for the period	<u><b>(11)</b></u>	<u>60</u>
Total comprehensive income for the period	<u><b>294</b></u>	<u>513</u>
Profit (loss) for the period attributable to:		
– Owners of the Company	<b>400</b>	500
– Non-controlling interests	<u><b>(95)</b></u>	<u>(47)</u>
	<u><b>305</b></u>	<u>453</u>
Total comprehensive income (expense) for the period attributable to:		
– Owners of the Company	<b>388</b>	557
– Non-controlling interests	<u><b>(94)</b></u>	<u>(44)</u>
	<u><b>294</b></u>	<u>513</u>
	<b>RMB cents</b>	<b>RMB cents</b>
<b>Earnings per share</b>	<b>7</b>	
– Basic	<b>75.46</b>	92.61
– Diluted	<u><b>75.46</b></u>	<u>92.61</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2024**

		<b>30 June 2024</b>	31 December 2023
		<i>(Unaudited)</i>	<i>(Audited and restated)</i>
	<i>NOTES</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>2,357</b>	2,422
Right-of-use assets	8	<b>458</b>	380
Investment properties		<b>47</b>	60
Goodwill		<b>320</b>	325
Intangible assets	8	<b>783</b>	868
Interests in associates and joint ventures		<b>43</b>	43
Equity instruments at fair value through other comprehensive income		<b>32</b>	45
Financial assets at fair value through profit or loss		<b>509</b>	453
Loan receivables		<b>12</b>	12
Other receivables, prepayments and deposits		<b>352</b>	351
Deferred tax assets		<b>151</b>	433
		<hr/> <b>5,064</b> <hr/>	<hr/> 5,392 <hr/>
<b>Current assets</b>			
Properties under development		<b>70</b>	70
Properties for sale		<b>281</b>	280
Inventories		<b>269</b>	405
Financial assets at fair value through profit or loss		<b>124</b>	38
Loan receivables		<b>90</b>	79
Trade receivables	9	<b>745</b>	702
Other receivables, prepayments and deposits		<b>667</b>	492
Tax recoverable		<b>30</b>	39
Pledged bank deposits		<b>624</b>	315
Bank deposits with original maturity over three months		<b>215</b>	329
Cash and cash equivalents		<b>2,382</b>	2,241
		<hr/> <b>5,497</b> <hr/>	<hr/> 4,990 <hr/>

		<b>30 June 2024</b>	31 December 2023
		<i>(Unaudited)</i>	<i>(Audited and restated)</i>
	<i>NOTES</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Current liabilities</b>			
Trade and other payables	10	<b>1,390</b>	1,518
Contract liabilities		<b>379</b>	491
Lease liabilities		<b>97</b>	76
Provisions		<b>110</b>	127
Derivative financial instruments		<b>37</b>	107
Bank borrowings	11	<b>1,318</b>	1,033
Convertible and exchangeable bonds	12	<b>274</b>	256
Convertible note	13	<b>375</b>	357
Tax payable		<b>72</b>	80
		<u><b>4,052</b></u>	<u>4,045</u>
<b>Net current assets</b>		<u><b>1,445</b></u>	<u>945</u>
<b>Total assets less current liabilities</b>		<u><b>6,509</b></u>	<u>6,337</u>
<b>Non-current liabilities</b>			
Other payables	10	<b>35</b>	37
Lease liabilities		<b>110</b>	45
Bank borrowings	11	–	1
Deferred tax liabilities		<b>84</b>	80
		<u><b>229</b></u>	<u>163</u>
<b>Net assets</b>		<u><b>6,280</b></u>	<u>6,174</u>
<b>Capital and reserves</b>			
Share capital		<b>39</b>	39
Share premium and reserves		<b>6,075</b>	5,856
Equity attributable to owners of the Company		<b>6,114</b>	5,895
Non-controlling interests		<b>166</b>	279
		<u><b>6,280</b></u>	<u>6,174</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

		<b>Six months ended 30 June</b>	
		<b>2024</b>	<b>2023</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTES</i>	<i>RMB million</i>	<i>RMB million</i>
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>259</b>	457
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	8	(66)	(116)
Placement of bank deposits with original maturity over three months		(100)	(507)
Withdrawal of bank deposits with original maturity over three months		214	200
Placement of pledged bank deposits		(310)	(12)
Purchase of intangible assets	8	(289)	(83)
Proceeds from disposal of intangible assets		341	–
Interest received		27	25
Purchase of financial assets at fair value through profit or loss		(2,097)	(6,061)
Proceeds from disposal of financial assets at fair value through profit or loss		2,030	6,062
Other investing activities		3	(57)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(247)</b>	(549)
<b>FINANCING ACTIVITIES</b>			
New bank borrowings raised	11	863	703
Repayment of bank borrowings		(580)	(512)
Repayment of lease liabilities		(53)	(37)
Payment for repurchase and cancellation of shares		–	(135)
Dividend paid		(65)	–
Contribution from non-controlling interests of a subsidiary		–	1
Acquisition of partial interest of subsidiaries		(9)	–
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>156</b>	20

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB million</i>	<i>RMB million</i>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>168</b>	<b>(72)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>2,241</b>	<b>3,701</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u><b>(27)</b></u>	<u><b>16</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<u><u><b>2,382</b></u></u>	<u><u><b>3,645</b></u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate and ultimate holding company is DJM Holding Ltd. and its controlling shareholders are Dr. Liu Dejian and Mr. Liu Luyuan. 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 Group are engaged in (i) gaming and application services, (ii) overseas education business (“Mynd.ai business”), and (iii) property development business.

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

## 2. BASIS OF PREPARATION

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

## 3. PRINCIPAL ACCOUNTING POLICIES

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

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

### Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual periods beginning on 1 January 2024 for the preparation of the Group’s condensed consolidated financial statements:

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

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

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

***Accounting policies***

*Convertible instruments (with conversion options not meeting “fixed for fixed criterion”)*

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

***Transition and summary of impact***

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

The Group’s outstanding convertible instruments, comprising convertible and exchangeable bonds (Note 12) and convertible note (Note 13), include counterparty conversion options that do not meet equity instruments classification by applying HKAS 32 “Financial Instruments: Disclosure and Presentation”. The host debt component is measured at amortised cost and derivative component (including the conversion options) is measured at fair value. Upon the application of the 2020 Amendments, given that the conversion options are exercisable anytime, the host liability and the derivative component as at 1 January and 31 December 2023 are reclassified as current liabilities as the holders have the option to convert within twelve months after the reporting period.

Except as described above, the application of the 2020 Amendments and 2022 Amendments has no other material impact on the classification of the Group’s other liabilities. The change in accounting policy does not have impact to the Group’s profit or loss or earnings per share for the six months ended 30 June 2023.

**4. REVENUE AND SEGMENT INFORMATION**

**Types of goods and services**

	<b>Six months ended 30 June 2024 (Unaudited)</b>		
	<b>Gaming and application services RMB million</b>	<b>Mynd.ai RMB million</b>	<b>Total RMB million</b>
Revenue from sales of pre-paid game cards for online and mobile games	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
	<u>2,121</u>	<u>1,180</u>	<u>3,301</u>



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

### Segment information

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

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

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

### Six months ended 30 June 2024 (Unaudited)

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

Six months ended 30 June 2023 (Unaudited and restated)

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

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

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

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

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

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

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

## 5. TAXATION

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

## 6. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB million</b>	<b>RMB million</b>
Dividends recognised as distribution during the period:		
2023 final dividend – Hong Kong dollar (“HKD”) 0.40 (2023: 2022 final dividend – HKD0.40) per share	<u><b>193</b></u>	<u>191</u>

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.40 per share, amounting to HKD213 million (equivalent to RMB194 million), will be paid to the shareholders of the Company whose names appear in the register of members on 13 September 2024.

## 7. EARNINGS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB million</b>	<b>RMB million</b>
Earnings for the purpose of basic and diluted earnings per share:		
– Profit for the period attributable to the owners of the Company	<b>400</b>	<b>500</b>
	<b>400</b>	<b>500</b>
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>'000</b>	<b>'000</b>
Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of treasury shares held under share award scheme)	<b>531,074</b>	539,186
Effect of dilutive potential shares from the Company's share option scheme	<b>–</b>	27
Weighted average number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of treasury shares held under share award scheme)	<b>531,074</b>	<b>539,213</b>

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

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

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

During the current interim period, the Group entered into several new lease agreements ranging from 2 to 3 years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets of RMB142 million (six months ended 30 June 2023: RMB15 million) and lease liabilities of RMB141 million (six months ended 30 June 2023: RMB13 million).

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

## 9. TRADE RECEIVABLES

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

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

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

## 10. TRADE AND OTHER PAYABLES

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

Notes:

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

	<b>30 June 2024 (Unaudited) RMB million</b>	31 December 2023 (Audited) RMB million
0 – 90 days	329	223
91 – 180 days	82	216
181 – 365 days	8	31
Over 365 days	43	29
	<u>462</u>	<u>499</u>

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

## 11. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounted to RMB863 million (six months ended 30 June 2023: RMB703 million). The bank borrowings as at 30 June 2024 carry interest at (i) one-month Hong Kong Interbank Offered Rate (“HIBOR”) plus 2.20% or 2.35% per annum, (ii) three-month Bloomberg Short-Term Bank Yield (“BSBY”) Rate two business days prior to date of borrowing plus 2.30%, (iii) the United States Prime Rate plus 1.30%, (iv) interest rate of 1.00% to 3.75% per annum or (v) one-year Loan Prime Rate of China less 0.65% to 0.75% per annum. The secured portion of the Group’s borrowings were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

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

## 12. CONVERTIBLE AND EXCHANGEABLE BONDS

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

The warrants shall entitle the Nurture Education to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds are exercisable at the option of bondholders, in whole or in part and can be exchangeable for ordinary shares of Mynd.ai at any time and from time to time during the exchange period. The convertible and exchangeable bonds bear interest accruing at a rate of 5.00% per annum on the aggregate principal amount of the convertible and exchangeable bonds and will be due on the fifth anniversary from the bond issue date. The convertible and exchangeable bonds are denominated in USD. At initial recognition, the convertible and exchangeable option was classified as derivative financial instrument. The fair value of the convertible and exchangeable option was insignificant and the carrying amount is recognised as nil at initial recognition and at 31 December 2023 and 30 June 2024.

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

	<b>30 June 2024</b>	31 December 2023
	<i>(Unaudited)</i>	<i>(Audited and restated)</i>
	<b>RMB million</b>	<b>RMB million</b>
At 1 January	<b>256</b>	1,333
Redemption	–	(1,254)
Interest accrued	<b>21</b>	211
Settlement of interest	<b>(4)</b>	(63)
Exchange adjustments	<b>1</b>	29
	<b>274</b>	256

## 13. CONVERTIBLE NOTE

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

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

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

The Convertible Note is denominated in USD.



## 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 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. The fair value of the derivative financial instrument was RMB101 million and RMB36 million at 31 December 2023 and 30 June 2024, respectively.

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

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

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2024, the Group had pledged bank deposits, bank deposits with original maturity over three months and cash and cash equivalents of approximately RMB3,221 million (31 December 2023: RMB2,885 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.21 (31 December 2023: 0.17). As at 30 June 2024, total bank borrowings of the Group amounted to approximately RMB1,318 million (31 December 2023: RMB1,034 million) which included variable-rate loan of RMB197 million (31 December 2023: RMB272 million) and fixed-rate loan of RMB1,121 million (31 December 2023: RMB762 million). The bank borrowings of RMB1,307 million (31 December 2023: RMB1,032 million) were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group and corporate guarantee provided by the Company and its subsidiaries, the remaining bank borrowings of RMB11 million (31 December 2023: RMB2 million) were unsecured.

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

## STAFF INFORMATION

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

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

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

As at 30 June 2024, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix C3 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

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	5,779,040 (L)	1.09%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	216,384,938 (L)	40.73%
Liu Luyuan	Fujian NetDragon Websoft Co., Ltd. (“NetDragon (Fujian)”)	Beneficial owner	RMB21,311,000 (L)	0.07%
Chen Hongzhan (Note 4)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.11%
Lee Kwan Hung, Eddie (Note 5)	The Company	Beneficial owner	550,019 (L)	0.10%
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%

*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 a beneficiary of certain trust holding in aggregate of 21,541,819 Shares, and the rest being beneficial interest of 1,684,000 Shares.

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

3. Leung Lim Kin, Simon is interested in 1.09% of the Shares which is represented by beneficial interest of 1,779,040 Shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.
4. Chen Hongzhan is interested in 2.11% of the Shares which is represented by personal interest of 156,200 Shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 Shares.
5. Lee Kwan Hung, Eddie is interested in 0.10% of the Shares which is represented by personal interest of 350,019 Shares and the rest being underlying shares of interest of 200,000 share options granted by the Company.
6. Liu Sai Keung, Thomas is interested in 0.09% of the Shares which is represented by personal interest of 300,019 Shares and the rest being underlying shares of interest of 200,000 share options granted by the Company.
7. Li Sing Chung, Matthias is interested in 0.0004% of the Shares which is represented by personal interest of 2,000 Shares.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2024, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 June 2024, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

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	43,733,320 (L)	8.23%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	43,733,320 (L)	8.23%
Zhou Quan (Note 2)	The Company	Through controlled corporations	41,374,375 (L)	7.79%
Zheng Hui (deceased) (Note 3)	The Company	Beneficial owner and through controlled corporations	34,437,519 (L)	6.48%

### Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.05%, 4.77%, 0.97% and 0.44% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

- a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
  - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
  - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investors Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. Reference is made to the announcement of the Company dated 9 June 2023 in relation to the passing away of Zheng Hui, a former executive Director.

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group as at 30 June 2024.

## **SHARE SCHEMES**

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

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

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

## SHARE OPTION SCHEME

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

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

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

### 2008 Share Option Scheme

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options				As at
			1 January 2024	Granted	Exercised	Cancelled	Lapsed	30 June 2024
<b>Independent non-executive Directors</b>								
Lee Kwan Hung, Eddie	31.03.2017	23.65	100,000	-	-	-	-	100,000
Liu Sai Keung, Thomas	31.03.2017	23.65	100,000	-	-	-	-	100,000
<b>Others</b>								
Employees	31.03.2017	23.65	100,000	-	-	-	-	100,000
<b>Total</b>			<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,000</u>



## 2018 Share Option Scheme

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

### Notes:

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.

## SHARE AWARD SCHEME

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

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

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

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

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

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

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

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

As at 30 June 2024, no Convertible and Exchangeable Bonds were converted into ordinary shares of Best Assistant and no warrants were converted into Shares of the Company.

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

### **Merger and Proposed Spin-off**

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

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

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

### **Distribution in Specie**

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

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

## **MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix C3 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix C3 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2024.

## **INTERIM DIVIDEND**

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

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, 13 September 2024 to Monday, 16 September 2024, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2024, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 12 September 2024.

## **COMPETITION AND CONFLICT OF INTERESTS**

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

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Throughout the period under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules.

## AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group’s interim results for the six months ended 30 June 2024 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2024, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company’s listed securities (including any sale of treasury shares).

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

Hong Kong, 29 August 2024

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