2023 ANNUAL REPORT

網龍網絡控股有限公司
NETDRAGON WEBSOFT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 777

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網龍網絡控股有限公司
NETDRAGON WEBSOFT HOLDINGS LIMITED

CHAIRMAN'S STATEMENT

Dear Shareholders,

2023 has been a year of significant progress and achievement. With a focus on executing our growth initiatives, we saw substantial advancements across both gaming and education sectors. During the year, we remain committed to our strategies that include prioritizing content quality, investing in advanced AI technologies, introducing SaaS offering, and launching new products to address the needs of our users. These efforts have set a solid foundation for our business to perform in 2024, and also positioned us well for sustainable long-term growth.

GAMING

In 2023, Our gaming business achieved revenue of RMB3.8 billion for the full year, an 9.6% increase YoY, a strong turnaround compared to the 5.8% YoY decrease in 2022 vs 2021. We are proud to have delivered revenue growth for our gaming business in 9 out of the past 10 years, with 2022 as the only exception due to Covid-related macro slowdown of the domestic economy. During this 10-year period, our gaming revenue increased by 3.9 times, almost all coming from our organic growth driven by our focus in delivering high quality games to our players. In 2023, all of our core IPs delivered strong performance as we put our emphasis with relentless focus on driving gamers' engagement and spending with quality contents, driven by continuous innovation and investment in AI technologies to stay ahead of the market. While we continued to generate significant growth for our existing games during the year, we invested heavily in a robust pipeline that includes new games in a broad array of genres. We believe our track record, our R&D capabilities along with the depth and breadth of our players' base will put our gaming business in a unique position to perform in 2024.

EDUCATION

Turning to our education business, 2023 was a landmark year as we successfully completed the spin-off listing of our overseas education business in the U.S. in December. Not only will this spinoff unlock value for our shareholders, it will also pave the way for our newly-listed entity, Mynd.ai, to expand beyond our competencies in hardware and establish ourselves as a leader in integrated hardware and software in the classroom environment. As hardware sales returned to a normalized pre-pandemic level in 2023, we believe the higher penetration and deeper adoption of interactive flat panel displays driven by the pandemic provided a solid foundation for more robust usage of software applications on our hardware. As the market leader, we believe Mynd.ai is exceptionally well positioned to capitalize on this opportunity that will redefine the education landscape.

ESG

We continued to make positive progress on the ESG front in 2023. In December, our ESG rating was upgraded by two tiers to "BBB" by MSCI. In June, NetDragon was included in the first "The Sustainability Yearbook 2023 (China Edition)" by S&P Global, alongside Tencent, NetEase and Baidu as one of four companies in the "Interactive Media, Services and Home Entertainment" sector, showcasing our outstanding ESG performance. NetDragon was also rated as a "low risk" company by Morningstar Sustainalytics and was ranked among the top 20% in its assessment of the software and services industry.

As we look forward to the opportunities that lie ahead in 2024, I would like to express my deepest gratitude for your support and trust in the past year. We truly appreciate the confidence you have placed in us, allowing us to navigate challenges, pursue our growth initiatives and achieve remarkable milestones. We remain dedicated to creating long-term value for our shareholders, knowing that your steadfast support will remain the cornerstone of our continued success.

Liu Dejian
Chairman

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Li Sing Chung Matthias
Mr. Lee Kwan Hung, Eddie
Mr. Liu Sai Keung, Thomas

COMPLIANCE OFFICER

Mr. Liu Luyuan

COMPANY SECRETARY

Mr. Lau Hak Kin

QUALIFIED ACCOUNTANT

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

AUDIT COMMITTEE

Mr. Li Sing Chung Matthias *(Chairman of the Committee)*
Mr. Lee Kwan Hung, Eddie
Mr. Liu Sai Keung, Thomas

REMUNERATION COMMITTEE

Mr. Lee Kwan Hung, Eddie *(Chairman of the Committee)*
Mr. Li Sing Chung Matthias
Mr. Liu Sai Keung, Thomas

NOMINATION COMMITTEE

Mr. Liu Sai Keung, Thomas *(Chairman of the Committee)*
Mr. Li Sing Chung Matthias
Mr. Lee Kwan Hung, Eddie

SHARE AWARD SCHEME COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Mr. Lau Hak Kin

HONG KONG LEGAL ADVISER

Jingtian & Gongcheng LLP

PRC LEGAL ADVISER

Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors

CORPORATE INFORMATION

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

REGISTERED OFFICE

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

HEAD OFFICE IN PRC

851 Building,
58 Wenquan Branch Road,
Fuzhou

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY WEBSITE

www.nd.com.cn

GROUP FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December				
	2019	2020	2021	2022	**2023**
	RMB million	RMB million	RMB million	RMB million	**RMB million**
Revenue	5,793	6,137	7,036	7,866	**7,101**
Cost of revenue	(1,938)	(1,966)	(2,513)	(3,551)	**(2,703)**
Gross profit	3,855	4,171	4,523	4,315	**4,398**
Other income and gains	140	231	224	223	**264**
Impairment loss under expected credit loss model, net of reversal	(26)	2	(8)	(14)	**(3)**
Selling and marketing expenses	(916)	(893)	(956)	(945)	**(807)**
Administrative expenses	(883)	(903)	(956)	(975)	**(1,199)**
Research and development costs	(1,076)	(1,176)	(1,160)	(1,224)	**(1,382)**
Other expenses and losses	(308)	(327)	(266)	(213)	**(446)**
Share of results of associates and joint ventures	(8)	(17)	(16)	(17)	**(4)**
Operating profit	778	1,088	1,385	1,150	**821**
Interest income on pledged bank deposits	3	3	1	–	**–**
Exchange (loss) gain on financial assets at fair value through profit or loss, bank borrowings, convertible preferred shares, convertible and exchangeable bonds, convertible note and derivative financial instruments	(1)	45	19	(73)	**(21)**
Fair value change on convertible preferred shares	111	–	–	–	**–**
Fair value change on financial assets at fair value through profit or loss	–	52	20	(33)	**75**
Fair value change on derivative financial instruments	–	43	(3)	15	**28**
Finance costs	(25)	(158)	(186)	(219)	**(268)**
Profit before taxation	866	1,073	1,236	840	**635**
Taxation	(163)	(217)	(253)	(76)	**(188)**
Profit for the year	703	856	983	764	**447**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)

	For the year ended 31 December				
	2019	2020	2021	2022	**2023**
	RMB million	RMB million	RMB million	RMB million	**RMB million**
Attributable to:					
– Owners of the Company	807	954	1,062	834	**550**
– Non-controlling interests	(104)	(98)	(79)	(70)	**(103)**
Profit for the year	703	856	983	764	**447**
Earnings per share					
– Basic (RMB cents)	152.68	171.19	191.67	154.15	**103.00**
– Diluted (RMB cents)	152.17	170.96	191.58	154.14	**103.00**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2019	2020	2021	2022	**2023**
	RMB million	RMB million	RMB million	RMB million	**RMB million**
Non-current assets	3,668	3,870	3,944	4,344	**5,392**
Current assets	4,089	6,123	6,941	6,687	**4,990**
Non-current liabilities	(493)	(1,380)	(1,256)	(1,468)	**(772)**
Current liabilities	(1,903)	(1,961)	(2,554)	(2,964)	**(3,436)**
Non-controlling interests	235	155	240	300	**(279)**
Equity attributable to owners of the Company	5,596	6,807	7,315	6,899	**5,895**

MANAGEMENT DISCUSSION AND ANALYSIS

(1) FINANCIAL HIGHLIGHTS AND REVIEW

Fiscal Year 2023 Financial Highlights

- Revenue was RMB7.1 billion, representing a 9.7% decrease YoY.
- Revenue from gaming and application services was RMB4.2 billion, representing 59.0% of the Group's total revenue and a 6.6% increase YoY.
- Revenue from Mynd.ai was RMB2.9 billion, representing 41.0% of the Group's total revenue and a 25.7% decrease YoY.
- Gross profit was RMB4.4 billion, representing an 1.9% increase YoY.
- Core segmental profit[1] from the gaming and application services was RMB1.4 billion, representing a 12.9% increase YoY.
- Core segmental loss[1] from Mynd.ai was RMB93 million for FY2023 compared to profit of RMB30 million for FY2022.
- EBITDA was RMB1.3 billion, representing an 8.7% decrease YoY.
- Operating profit was RMB821 million, representing a 28.6% decrease YoY.
- Non-GAAP operating profit[2] was RMB1.1 billion, representing a 12.7% decrease YoY.
- Profit attributable to owners of the Company was RMB550 million, representing a 34.1% decrease YoY.
- Non-GAAP profit attributable to owners of the Company[2] was RMB1.0 billion, representing a 24.9% decrease YoY.
- Operating cashflow was RMB1.1 billion, representing a 4.2% increase YoY.
- The Company declared a final dividend of HKD0.40 per ordinary share (2022: HKD0.40 per ordinary share), subject to approval at the coming annual general meeting.

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

Segmental Financial Highlights

(RMB million)	**FY2023**		FY2022		**Variance**	
	Gaming and application services	**Mynd.ai**	Gaming and application services (restated)	Mynd.ai (restated)	**Gaming and application services (restated)**	**Mynd.ai (restated)**
Revenue	**4,189**	**2,910**	3,931	3,919	**6.6%**	**-25.7%**
Gross profit	**3,708**	**728**	3,375	927	**9.9%**	**-21.5%**
Gross margin	**88.5%**	**25.0%**	85.9%	23.7%	**2.6%**	**1.3%**
Core segmental profit (loss)[1]	**1,399**	**(93)**	1,239	30	**12.9%**	**N/A**
Segmental operating expenses[3]						
– Research and development	**(1,186)**	**(196)**	(1,019)	(204)	**16.4%**	**-3.9%**
– Selling and marketing	**(463)**	**(327)**	(514)	(419)	**-9.9%**	**-22.0%**
– Administrative	**(649)**	**(267)**	(618)	(263)	**5.0%**	**1.5%**

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

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 off and impairment loss of intangible assets, write-down of inventories, fair value change on financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, interest income on pledged bank deposits, redemption loss of convertible and exchangeable bonds, reversal of impairment loss of intangible assets and exchange difference on financial assets at FVTPL, convertible and exchangeable bonds and derivative financial instruments.

Note 3: Segmental operating expenses exclude unallocated expenses/income such as 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.

(2) BUSINESS REVIEW AND OUTLOOK

In 2023, NetDragon Websoft Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") delivered results that reflect strong focus in execution and making the right investments in key strategic initiatives to drive sustainable growth.

We are also pleased to announce that the Board has approved our final dividend proposal of HKD0.40 per ordinary share. Including dividends declared during our interim earnings, total dividends for the year will amount to HKD1.80 per ordinary share.

Gaming Business

Our gaming revenue, which represents 89.7% of gaming and application services revenue, achieved a record high RMB3.8 billion in 2023, a 9.6% YoY growth on the back of macro-economic post-Covid recovery and execution of our strategy that focuses on driving sustainable growth, a strategy that has paid off in the past 10 years as gaming revenue increased by over 3.9 times during this period. During the year, our focus includes systematically expanding our gaming contents towards an optimal combination of "content driven" and "numerical attributes driven" spending, as we see gamers increasingly paying for enhanced experience in our games with innovative, high quality contents that are constantly updated and expanded with seamless integration into the gameplay. We also continued to strengthen our operations capability in areas including marketing, user acquisition, user retention and publishing, resulting in optimization of the pool of our active players that on the one hand promotes fairness in gameplay and hence fun for all our players, and on the other hand increases loyalty of players that translate to higher spending for simply a higher quality gaming experience.

In 2023, our domestic and overseas gaming revenue increased by 10.5% and 4.5% YoY, respectively. Our overseas revenue, which represented 15.0% of our gaming revenue, continued to be resilient despite a negative 5.7% growth of the overall overseas revenue of Chinese gaming developers in 2023 as the overseas gaming sector saw reduced activities post-Covid as well as headwinds caused by the broad-based changes around user privacy policies. We also achieved revenue growth in both PC and mobile segments. Revenue from PC games amounted to RMB3.2 billion, accounting for 84.3% of total gaming revenue with an 11.1% YoY growth. Mobile game revenue reached RMB589 million, accounting for 15.7% of total gaming revenue and registering a 2.0% YoY growth.

Our *Eudemons* IP performed exceptionally well in 2023 with revenue of RMB3.4 billion, a YoY increase of 12.4%, highlighting the evergreen vitality of this flagship IP as we continued to consolidate our competitive advantage in the MMORPG space. In particular, our flagship PC game, *Eudemons Online*, achieved revenue of RMB2.9 billion, a 14.0% YoY increase on the back of our growth strategy that entails i) high frequency of new contents and new gameplay mechanics, ii) enhancing gamers' overall experience by truly addressing the needs of all players to achieve a balanced ecosystem, and iii) stepping up our service level for our paying users. Our strategy resulted in not just revenue growth, but also higher engagement of our players as *Eudemons* IP saw 50.4% YoY increase in playing time per user on average during the year.

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

Gaming Business (Cont'd)

Our content strategy also paid off on the mobile end as the MAU of the "cross platform" version (ie. mobile platform) of *Eudemons Online* increased by 50.4% YoY, representing 36.2% of MAU on the PC platform, while at the same time nearly 20% of its average paying users are active players on the "cross platform" version. The strong engagement level of our players on both PC and mobile platforms, as well as the increasing dual-platform attribute (ie. PC and mobile) of *Eudemons Online*, opens the door to significantly more engagement and monetization opportunities. In 2023, revenue of our mobile games under the *Eudemons* IP increased by 4.6% YoY. In particular, our top flagship mobile game, *Eudemons pocket version* achieved a 6.0% YoY increase in gross billings, driven by optimization of our publishing strategy resulting in more effective and efficient user acquisition, in addition to continuous enhancement in gameplay experience.

Our Heroes *Evolved* IP continued to turn around its performance with games under the IP achieving a 5.8% revenue growth YoY. The popularity of the *Heroes Evolved* IP saw a significant increase during the year as we achieved a record-breaking level of live-streaming audience attending the *Heroes Evolved* e-sports competition events during the second half of the year. As live e-sports events resumed post-Covid in 2023, we expect to build on our success in e-sports to step up the promotion of the *Heroes Evolved* IP and drive player acquisition, leveraging an existing base of over 300 million of players having played the games under this IP since its launch.

We also achieved a significant expansion for our *Conquer* IP in 2023. The success of the "MMO+ casual" gameplay within the *Conquer Online* game resulted in the initiation of development of a new game (*Code-Alpha*) using this proven game play which is expected to be launched in 2024. We also started to create an ecosystem of online-to-offline competition to bring players' engagement to a new level.

During the year, we made remarkable progress in the application of generative AI (aka. AIGC) to create value for different parts of our gaming business. We saw the utilization of AI for our art production tasks increased from 14% in Q1 to 58% in Q4 2023, while man-hour savings driven by AI increased by 300% as we increasingly benefited from training of AI large language model that resulted in efficient production of high-quality contents. With AIGC, we are able to deliver much more frequent content updates that serve to increase retention of players and drive monetization. In addition, we also strategically position our investment in AIGC in areas that complement our competitive strength. During the year, we achieved strong progress in developing the "AI Companion" technology in MOBA games, including significantly increasing the retention rate of players who played with AI companions based on our testing data. We are also progressing with R&D work in NPC (non-playing characters) that could be integrated in our new open-world MMORPG in the future.

Going forward, we expect to continue to drive revenue and profits growth for our gaming business with a two-pronged approach – growing revenue for our existing games and investing in a robust pipeline of new games with a diversified array of genres, including social casual, idle card, top-down shooter, MOBA, MMORPG and ACGN games. We will also expand our geographical markets in 2024, and expect to enter or expand our presence in markets such as Japan, the Middle East and Indonesia.

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

Mynd.ai

In December 2023, we successfully completed the spin-off listing of our overseas education business via a merger of the business with NYSE-listed Gravitas Education Holdings Inc. ("GEHI") at a valuation of USD800 million for the merged entity, which was renamed to Mynd.ai, Inc. Prior to the closing of the merger, GEHI divested all of its existing businesses, with the exception of its Singapore education business (which represented approximately 8% of Mynd.ai's proforma revenue in 2023). NetDragon continues to consolidate the 2023 financial statements of Mynd.ai in its financials, as it holds 74.4% of the issued share capital of Mynd.ai as of 31 December 2023.

Revenue of Mynd.ai in 2023 was RMB2.9 billion, compared to RMB3.9 billion in the prior year. The decline in revenue is reflective of a return to a normalized operating environment following significant disruptions as a result of the Covid-19 pandemic. As it specifically relates to the education technology market, government-funded Covid relief programs across the world caused significant increases in customer demand (due to availability of funds) in both 2021 and 2022. These programs had mostly concluded by 2023. Mynd.ai's revenue in 2023 represents a continued upward trend in revenue when compared to 2020 and prior years (pre-Covid).

Other 2023 financial highlights of Mynd.ai include:

– Gross Margin improved 1.3 percentage points versus 2022 to 25%, due to lower materials and freight costs, as well as exchange rate impact

– Cash flow from operations improvement of RMB23 million compared to 2022

– Cash balance at year end was RMB650 million compared to RMB203 million at year end 2022

– Core segmental loss of RMB93 million compared to profit of RMB30 million in 2022, primarily driven by lower sales volumes due to the market normalization as explained above

The Promethean brand under Mynd.ai continued to maintain its market leadership position. During 2023, Promethean captured 17.4% of the K-12 Interactive Flat Panel Displays volume market share globally ex-China. In Q4 2023 alone, Promethean was able to capture 21.1% of the global ex-China market share and continued to be the market leading brand in the United States, United Kingdom and Ireland, and Germany.

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

Mynd.ai (Cont'd)

Promethean's market leadership in the global K-12 market puts the company in position to continue to grow both its hardware and software business. In addition to driving the growth of its hardware business, Promethean recently launched its integrated SaaS offering, Explain Everything Advanced, to tap into the subscription-based software revenue opportunity, leveraging our global go-to-market channel. Over the course of 2024, Mynd.ai plans to continue to drive the evolution and growth of the software business, with enhancements to the core offerings and empowering its sales team to drive engagement with customers. Mynd.ai will also continue to invest in R&D to maintain its leadership both at the high-end of the market and foster deeper penetration of the broader, lower-cost market.

We believe Mynd.ai is exceptionally well positioned to win market share with the following differentiation:

– Huge installed base of existing Promethean users as the market leader, which is conducive for replacement sales and SaaS software sales

– Unparalleled focus in education with a deep understanding of the needs of schools

– Unique ability to understand and meet the needs of schools/teachers in different use cases with professional training by our inhouse team of education consultants

– Comprehensive support structure post-sales to ensure seamless integration into teachers' workflow

– Well-established global network of over 4,000 distributors/resellers built over 20 years with deep understanding of the value of Promethean panels

– Promethean's market reputation and its long history as the market leading brand lead to confidence that we can be a long-term technology partner

The spinoff listing of Mynd.ai has set the stage for the company to expand beyond hardware and integrate software applications into the offering to bring teaching and learning experience to a new level.

Looking forward, the catalysts for success for Mynd.ai will include continued growth of our hardware revenue, investing in the development of our software applications to scale SaaS revenue and expanding market leadership in both hardware and software space.

(3) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2023, the Group had pledged bank deposits, bank deposits with original maturity over three months and cash and cash equivalents of approximately RMB2,885 million (31 December 2022: RMB3,909 million).

As at 31 December 2023, the Group had net current assets of approximately RMB1,554 million as compared with approximately RMB3,723 million as at 31 December 2022.

(4) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.17 (31 December 2022: 0.11). As at 31 December 2023, total bank borrowings of the Group amounted to approximately RMB1,034 million (31 December 2022: RMB739 million) which included variable-rate loan of RMB272 million (31 December 2022: RMB376 million) and fixed-rate loan of RMB762 million (31 December 2022: RMB363 million). The bank borrowings of RMB1,032 million (31 December 2022: RMB736 million) 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 its subsidiaries, the remaining bank borrowings of RMB2 million (31 December 2022: RMB3 million) were unsecured.

(5) CAPITAL STRUCTURE

As at 31 December 2023, the Group's total equity amounted to approximately RMB6,174 million (2022: RMB6,599 million).

(6) CONTINGENT LIABILITIES

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

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

Save as disclosed in this annual report, the Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures as at 31 December 2023.

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

(8) FOREIGN CURRENCY RISKS

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

(9) CREDIT RISKS

As at 31 December 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the 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.

(9) CREDIT RISKS (Cont'd)

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

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

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

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

(10) LIQUIDITY RISK

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

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

CORPORATE CULTURE

"Passion, 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.

Pursuit of Excellence

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

STAFF RELATIONSHIP AND WELFARE

HUMAN RESOURCES

As of 31 December 2023, total number of employees of the Group is 5,155.

1. Talent introduction and cultivation has always been a focus of the Company. Therefore, the Company has been bringing in high-caliber "new blood" and optimizing allocation of human resources.

   In 2023, a large number of outstanding talents in the fields of gaming and education were attracted by our extensive business platform and fast-growing business trend. A total of 593 talents were hired, including 124 senior talents. Meanwhile, we launched campus recruitment campaigns in key renowned colleges and universities across the country through which 115 outstanding fresh graduates received job offers. In respect of college-enterprise collaboration, we have established in-depth collaborative relationship with various colleges and universities and participated in the "on-job training" project launched by the Ministry of Education. By cooperating with 985 renowned colleges and universities and with the aid of the Company's quality education resources and talent cultivation system, we have retained a pool of talents for the new era, in turn enhancing brand awareness and influence of the Company. We have introduced a new recruitment management system which improves overall recruitment efficiency and quality through more advanced electronic means to achieve the result of adaptable to demands, rapid adjustment and precise identification in the process of recruitment, thereby the needs of building a normalised workforce for the Company can be fulfilled. In respect of employer branding, the Company was awarded "2023 Chinese Model of Talent Management Technological Enterprises (2023 中國人才管理科技典範企業)", " Favourite Employer of 2023 (2023 年度最愛僱主獎)", "Popular Employer Award (招聘人氣僱主獎)", "Extraordinary Employer (非凡僱主)", "Human Resource Management Outstanding Employer (人力資源管理傑出僱主獎)" and others.

2. The Company continued to promote the new form of metaverse organisation, identifying outstanding elites and resources in wider scope. Through disclosing our business needs and leveraging the expertise of external experts and professional teams in a more flexible way of cooperation, the capability of the Company has been enhanced to boost business development.

3. The Company continued to implement the strategy to go "full electronic". The use of e-business tools to perform various tasks has made our organisation transparent and efficient and increased business output, enabling the Company to build business focus and manage its business. Meanwhile, the Company continued to implement result-oriented and AI-enhanced task management and performance appraisal to obtain a more objective, fair and accurate evaluation of its employees through scientific management and objective evaluation of work achievements, thereby improving the efficiency of organizational management.

4. The Company promotes a culture of learning and is committed to improving overall quality of our employees. To encourage the practice of lifelong learning, we have carried out full staff training. On the one hand, we adhere to the use of technology, by converting best business practices into electronic tools, to empower our employees to quickly improve their knowledge and skills at work. On the other hand, the Company, from strategic perspective, continued to introduce various courses in new technology, such as AI technology, in which its employees were encouraged to participate, so that they could enhance their core skills and job outputs. Considering improvement of management's ability, we carried out projects on executive leadership assessment and feedback to motivate our teams to work together to achieve the goals of the organization.

5. In terms of employee services, the Company continued to improve service quality, service efficiency and service experience to enhance staff satisfaction and sense of belonging. We have promoted harmony between employees and the Company through introducing many more enriched and innovative ways of interaction and organizing various fun-filled activities that enhanced corporate culture, welfare and atmosphere. Effort has been made to care for our employees and express condolences from a more humane perspective, making our services even more heartwarming.

WORKING ENVIRONMENT

The Group provides a friendly and happy working environment for our staff, with spacious and well-equipped workplace, including staff canteen, cafes, activity rooms, indoor and outdoor swimming pool, football court, basketball court, badminton court, tennis court, squash courts and fitness center. A relaxed and pleasant working environment does not only enhance a sense of belonging among staffs, but also enhance their work efficiency and creativity. The Group also organises various staff activities such as carnival, quarter marathon and new year gala.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Liu Dejian, aged 52, Chairman of the Board and Executive Director

Dr. Liu is the founder of NetDragon and the chief designer of NetDragon's development strategy and business planning. Dr. Liu was appointed as the Director and Chairman of the Board on 15 October 2007. Over the years, Dr. Liu plays a pivotal role in elevating our Company into one of the leading online game and mobile Internet operations developers in PRC. Dr. Liu is mainly responsible for the group's forward-looking business strategies, and the formation of research and development teams. Dr. Liu leads the design of the online game products and formulates the development policy, which has significantly contributed to the growth of the Company as a competitive online game operator and developer. Currently, Dr. Liu is committed to leading the Company's transformation to an international design-oriented enterprise, while actively promoting Internet education to establish our Group as a leader in the global smart education sector.

Dr. Liu always pays attention to the development of global science and technology. He believes that information technology would change the world, therefore, Dr. Liu founded Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") after graduating with his Bachelor's degree.

Dr. Liu graduated with a Bachelor's degree of Science in Chemistry from University of Kansas in the USA in 1995, and a doctorate degree in education from Beijing Normal University in 2021. He is currently a doctoral student and studying the "Innovation Leading of Engineering Doctor" by the Tsinghua Shenzhen International Graduate School.He was awarded the Special Allowance Expert in State Council* (國務院特殊津貼專家) in January 2015. In May 2017, Dr. Liu was recognized as a Senior Engineer Enjoying Professor and Researcher Status* (享受教授、研究員待遇高級工程師) with his exceptional technical accomplishments. In addition, Dr. Liu received the 2013 Progress Prize Second Award in Fujian Province Science and Technology* (二零一三年度福建省科學技術進步二等獎) and 2021 Progress Prize Third Award in Fujian Province Science and Technology* (二零二一年度福建省科學技術進步三等獎). Dr. Liu is a brother of Liu Luyuan.

* *For identification purpose only*

Leung Lim Kin, Simon, aged 69, Vice Chairman of the Board, Executive Director, Chairman and Chief Executive Officer of Fujian Province Huayu Education Technology Co. Ltd. ("Fujian Huayu") (福建省華漁教育科技有限公司)

Dr. Leung joined the Company in March 2015 and was appointed as the executive Director on 30 October 2015. He is responsible for the planning, consolidation and operation of the education business of the Company in the People's Republic of China and the development of the online education business overseas.

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

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

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

Dr. Leung currently serves as a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business of the University of Western Ontario, an educational institution, where he is primarily responsible for advising the school on its mission strategy in Asia. He is also a governor of Tung Wah College, an educational institution, where he is primarily responsible for determining key governance issues. From 2010 to 2015, Dr. Leung was a member of the International Advisory Committee of the Hong Kong Polytechnic University. From 2015 to 2017, he was appointed as a member of the Steering Committee on Innovation and Technology of HKSAR. Dr. Leung is currently an independent non-executive director of PuraPharm Corporation Limited (Stock Code: 1498), a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also a non-executive director of Modern Times Group (Stock Code: 'MTG A' and 'MTG B'), a company listed on Nasdaq Stockholm. In addition, Dr. Leung is the chairman of the board of directors of Mynd.ai Inc.(Stock Code : MYND), a company listed on NYSE American.

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

Liu Luyuan, aged 50, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorised representatives of the Company

Mr. Liu was appointed as the executive Director, Chief Executive Officer, Compliance Officer and one of the authorised representatives of the Company on 15 October 2007. Mr. Liu also serves as director of NetDragon Websoft Inc. ("NetDragon (BVI)"). Mr. Liu currently shoulders a number of social services, such as acting as the director general of the West Taiwan Strait Youth Entrepreneurs Foundation, vice chairman of Fujian Youth Development Foundation, vice chairman of the Fujian Youth Federation, executive vice chairman of Fujian Enterprises and Entrepreneurs Confederation, as well as the chairman of Fujian Youth Entrepreneurs Association.

As an outstanding representative of the new social community taking part in the construction of the Fujian West-strait Economic Zone. Mr. Liu graduated from Chengdu Electronic Technology University in 1997 with a degree in electro-mechanical engineering, and later received an adjunct professor certificate from Fujian Normal University. Mr. Liu has engaged in the operation and management of software enterprises and technology development and has decades of experience in the management and administration of technical institutions. Mr. Liu is in charge of overall management. By taking part in various activities on behalf of the Company, he shared new ideas and new technologies in animation and game industry. Furthermore, he set up the West Taiwan Strait Youth Entrepreneurs Foundation to cultivate talent. Mr. Liu was awarded the "May 4th Youth Medal" and the titles of "Fujian Brilliant Entrepreneur", "Fujian Top Ten Economic People" and "Fujian Business Building Haixi Outstanding Contribution Award". Mr. Liu is a brother of Liu Dejian.

Chen Hongzhan, aged 51, Executive Director

Mr. Chen was appointed as the executive Director on 15 October 2007. He is an experienced online game developer with over 20 years of experience in the management of game development. He is mainly responsible for game development of the Company.

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

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 61, Non-executive Director

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

Mr. Lin is currently a general partner of IDG Capital. He has presided over a variety of investment projects in the IT industry since 1995 with remarkable success. Prior to joining IDG Capital, Dongliang worked at the Development Research Center of the State Department of China. Mr. Lin is currently a director of Sichuan Hexie Shuangma Co., Ltd (四川和諧雙馬股份有限公司)(stock code: 935), a company listed on the Shenzhen Stock Exchange. He was a non-executive director of Productive Technologies Company Limited (formerly known as "IDG Energy Investment Limited") (Stock Code: 650), a company listed on the Main Board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lee Kwan Hung, Eddie, aged 58, Independent non-executive Director

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

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

Mr. Lee is currently the independent non-executive director of Embry Holdings Limited (Stock Code: 1388), Newton Resources Ltd (Stock Code: 1231), Tenfu (Cayman) Holdings Company Limited (Stock Code: 6868), FSE Lifestyle Services Limited (Stock Code: 331) and Ten Pao Group Holdings Limited (Stock Code: 1979), all companies listed on the Main Board of the Stock Exchange. Mr. Lee was also an independent non-executive director of each of Landsea Green Management Limited (formerly known as "Landsea Green Properties Co., Ltd") (Stock Code: 106) between July 2013 to June 2020, China BlueChemical Ltd. (Stock Code: 3983) between June 2012 and May 2021, and Renze Harvest International Limited (formerly known as "Glory Sun Financial Group Limited") (Stock Code: 1282) between November 2015 and July 2022, and Red Star Macalline Group Corporation Ltd (Stock Code: 1528) between February 2015 and August 2023, all companies listed on Main Board of the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

Liu Sai Keung, Thomas, aged 51, Independent non-executive Director

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

Li Sing Chung Matthias, aged 69, Independent non-executive Director

Mr. Li was appointed as an independent non-executive Director on 30 December 2022. Mr. Li is also the chairman of the audit committee, a member of the remuneration committee and nomination committee.

Mr. Li is a seasoned business executive with extensive strategic planning, corporate and financial management experience. Mr. Li currently serves as vice chairman of the Hong Kong Business Accountants Association and the Hong Kong Public Sector Accountants Association, council member and treasurer of UNICEF Hong Kong, and Hong Kong Accounting Consultant appointed by the Ministry of Finance of the People's Republic of China. From 2016 to 2020, Mr. Li was the chief executive officer of Ocean Park Corporation in Hong Kong where he also previously served as chief financial officer and corporate secretary. Mr. Li started his career as an auditor at Arthur Andersen & Co and was a director overseeing Asia Pacific institutional banking at Bank of Montreal before joining Ocean Park in 1994, and previously served as secretary of UNICEF Hong Kong. Mr. Li graduated from the University of Toronto with a Bachelor of Commerce and Master of Business Administration degrees, and is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Professional Accountants, Canada.

SENIOR MANAGEMENT

Wang Song, aged 42, Chief Product Officer and Senior Vice President

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

Yam Kwok Hei, Benjamin, aged 48, Chief Financial Officer and Senior Vice President

Mr. Yam joined the Group as our Chief Financial Officer in October 2013 and is responsible for financial management, investor relations and strategic business development. Mr. Yam has over 20 years of professional experience in financial services spanning private equity, corporate finance and auditing. Prior to joining the Group, he was a Partner at Entropy Ventures, a cleantech venture capital firm, and before that, he worked for over 7 years at SAIF Partners, a pre-eminent Asian private equity firm managing over USD4 billion, where he last served as Senior Vice President and was actively involved in leading the closing and exit of numerous investment transactions in Greater China, as well as serving as an active board member of several portfolio companies. Mr. Yam started his professional career as an auditor at Arthur Andersen.

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

Chen Hong, aged 48, Chief Technology Officer ("CTO") of Fujian Huayu and Senior Vice President

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

Yu Biao, aged 54, Senior Vice President, Chairman of Fujian Huayu (PRC), Chairman of Fuzhou Software Technology Vocational College (福州軟件職業技術學院)

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

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

Lin, Chiachuan, Peter, aged 53, Chief Designer and Vice President

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

Lin Wei, aged 45, Senior Vice President and President of Fujian Huayu (PRC)

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

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

DIRECTORS AND SENIOR MANAGEMENT

Lin Chen, aged 42, Senior Vice President

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

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

Zheng Yicheng, aged 29, Chief Executive Director of NetDragon (Fujian) and Fujian Huayu

Mr. Zheng joined the Group in 2018. He currently serves as a representative and chief executive director of NetDragon (Fujian), Fujian Huayu and Fujian TQ Digital Inc. (福建天晴數碼有限公司). Mr. Zheng graduated from the University of Kansas in the USA with a bachelor's degree in civil engineering in 2018. He is focusing on core product design with his agile thinking and pursuit of excellence, demonstrate his outstanding design innovation talents and management abilities.

In the corporate governance aspect, he also actively participates in the operation and development of the Group with enthusiasm, actively provides suggestions and positive assistance to promote high-quality business development, and has won reputation and praise both inside and outside the Group.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Hak Kin, Wood, aged 46, Financial Controller, Qualified Accountant, Head of Compliance and Corporate Affairs and Company Secretary

Mr. Lau joined the Group as Financial Controller and Head of Compliance and Corporate Affairs in February 2014 and was appointed as the Company Secretary of the Group in September 2014. Mr. Lau holds a bachelor's degree in business administration, majoring in accountancy, from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a CFA charterholder. He has over 20 years of experience in financial management, risk management, accounting, taxation and auditing and previously worked for PricewaterhouseCoopers and acting chief financial officer of Asian Citrus Holdings Limited before joining the Group.

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

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

The Group is principally engaged in (i) gaming and application services, (ii) Mynd.ai business and (iii) property development business.

Details of the principal activities of the Company's principal subsidiaries are set out in note 48 of Notes to the Consolidated Financial Statements.

BUSINESS REVIEW

The fair review of the Group's business for the year ended 31 December 2023 is set out in "Management Discussion and Analysis" section on pages 10 to 13.

Details of analysis of the financial key performance are set out in "Management Discussion and Analysis" section on pages 8 to 9.

PRINCIPAL RISKS & UNCERTAINTIES

Competition in the online and mobile game industry in the global market, including the PRC, is becoming increasingly intense. There are already several online and mobile game companies with strong financial resources, such as Electronic Arts, IGG Inc, NetEase.com and Tencent Holdings Limited, which have successfully listed their shares on NASDAQ or the Hong Kong Stock Exchange. Meanwhile, there are many private companies focusing on online game development which have further intensified the competition, particularly in the global market. Many of the competitors have been aggressively recruiting talent to bolster their game development capabilities and increasing their spending on game marketing for a long time. Increased competition in the online and mobile game market may make it difficult for the Group to retain our existing employees, attract new employees, acquire new players and sustain our growth rate.

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

BUSINESS REVIEW (Cont'd)

PRINCIPAL RISKS & UNCERTAINTIES (Cont'd)

The Group relies on the spending of our game players for our revenue, which may in turn depend on the players' level of disposable income, job security, perceived future earnings capabilities and willingness to spend. In the past three years, the global economy has been affected by the COVID-19 pandemic. Many major economies have also adjusted their monetary and fiscal policies, which has led to far-reaching effects such as inflation and liquidity crisis in small and medium-sized banks in Europe and the United States. If our game players reduce their spending on playing games due to such uncertain economic conditions, our business, financial condition and results of operations may be adversely affected.

Details of the risks relating to the contractual arrangements are set out on pages 51 to 54.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

The suppliers of the Group's online game business include primarily server and bandwidth leasing companies and game operation service providers and it also relies on third party service providers in various aspects. The distribution and payment channels comprise (i) direct sales supported by online payment service providers and distribution partners, (ii) pre-paid card sales supported by distributors throughout the PRC, and (iii) cooperation channels supported by our cooperation partners.

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

BUSINESS REVIEW (Cont'd)

COMPLIANCE WITH LAWS AND REGULATIONS

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

The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group strictly abides by the relevant laws, regulations, business guidelines and normative standards in respect of network security, data security and personal information protection in the place where its business is operated, with a view to protecting the privacy of its employees and customers.

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

Workplace Quality

The Group is an equal opportunity employer and eliminates any kind of discrimination. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees' rights and benefits. We establish and implement policies that promote a friendly and respectful workplace.

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

Health and Safety

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

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

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2023 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 149.

The interim dividend of HKD0.40 and special interim dividend of HKD1.00 for the six months ended 30 June 2023 were paid on 30 November 2023.

The Directors now recommend the payment of a final dividend of HKD0.40 per share. The final dividend is expected to be payable on or before Friday, 26 July 2024 to shareholders whose names appear on the register of members of the Company on Friday, 14 June 2024, amounting to approximately RMB193 million.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2023.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2023 are set out in note 14 of Notes to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements of the Company's issued shares for the year ended 31 December 2023 are set out in note 37 of Notes to the Consolidated Financial Statements.

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2023 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2023 and 2022, the Company had reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB193 million (2022: approximately RMB193 million), share premium of approximately RMB1,599 million (2022: approximately RMB1,918 million) and retained earnings of approximately RMB66 million (2022: approximately RMB45 million) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers and the Group's largest customer accounted for approximately 18.5% and approximately 8.4%, respectively, of the Group's total revenue for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 57.1% and approximately 26.6%, respectively, of the Group's total purchase for the year.

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Dr. Liu Dejian (Chairman)
Dr. Leung Lim Kin Simon (Vice Chairman)
Mr. Liu Luyuan (Chief Executive Officer)
Mr. Zheng Hui (Deceased on 7 June 2023)
Mr. Chen Hongzhan

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Li Sing Chung Matthias *(Notes 2, 3 and 5)*
Mr. Lee Kwan Hung, Eddie *(Notes 1, 4, 5 and 8)*
Mr. Liu Sai Keung, Thomas *(Notes 1, 3, 6 and 7)*

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

Notes:

1. Member of Audit Committee
2. Chairman of Audit Committee
3. Member of Remuneration Committee
4. Chairman of Remuneration Committee
5. Member of Nomination Committee
6. Chairman of Nomination Committee
7. Member of Share Award Scheme Committee
8. Chairman of Share Award Scheme Committee

The Directors' profile is set out on pages 20 to 24.

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

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

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

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

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

The Company has received annual confirmations of independence from Mr. Lee Kwan Hung, Eddie, Mr. Liu Sai Keung, Thomas, Mr. Li Sing Chung Matthias and considers them to be independent.

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

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 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	NetDragon (Fujian)	Beneficial owner	RMB21,311,000 (L)	0.07%

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

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
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	583,019 (L)	0.11%
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 100.00% 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 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.

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

Notes: (Cont'd)

3. Leung Lim Kin, Simon is interested in 1.09% of the Shares which is represented by beneficial interest of 1,779,040 Shares and the rest being the underlying shares of interest of 4,000,000 share options granted by the Company.

4. Chen Hongzhan is interested in 2.11% of the Shares which is represented by personal interest of 156,200 Shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 Shares.

5. Lee Kwan Hung, Eddie is interested in 0.11% of the Shares which is represented by personal interest of 383,019 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.

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2023, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 43 of the Notes to the Consolidated Financial Statements, no transaction, arrangement or contract of significance in relation to the Company's business, to which the Company was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

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

So far as is known to the Directors, as at 31 December 2023, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group:

Name of Shareholder	**Name of Company**	**Capacity and nature of interests**	**Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	35.97%
IDG Group *(Note 2)*	The Company	Beneficial owner	44,533,320 (L)	8.38%
Ho Chi Sing *(Note 2)*	The Company	Through controlled corporations	44,533,320 (L)	8.38%
Zhou Quan *(Note 2)*	The Company	Through controlled corporations	42,116,935 (L)	7.93%
Zheng Hui (deceased) *(Note 3)*	The Company	Beneficial owner and through controlled corporations	34,437,519 (L)	6.48%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' 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 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%, 4.88%, 1.00% and 0.45% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

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

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

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

3. Reference is made to the announcement of the Company dated 9 June 2023 in relation to the passing away of Zheng Hui, a former executive Director.

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group as at 31 December 2023.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2023 are disclosed in note 43 to the consolidated financial statements of Group. Save as disclosed in below sections of this report, all other material related party transaction did not constitute non-exempted connected transactions or continuing connected transactions under the Listing Rules.

CONNECTED TRANSACTIONS

Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou 851

On 20 January 2015, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2015 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2012 Renewal Tenancy Agreements for a period from 22 January 2015 to 21 January 2018. On 19 January 2018, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2018 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2015 Renewal Tenancy Agreement. As Fuzhou 851 is 100% wholly owned by DJM Holding Ltd., a substantial shareholder of the Company and therefore, Fuzhou 851 is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the 2018 Renewal Tenancy Agreement constitute continuing connected transactions of the Company. The aggregate annual cap for the 2018 Renewal Tenancy Agreement based on the total annual rental payable under the 2018 Renewal Tenancy Agreement for each of the financial years ended 31 December 2018, 2019 and 2020 is RMB7.7 million (equivalent to approximately HKD9.4 million).

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

On 19 January 2021, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2021 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2018 Renewal Tenancy Agreement for a term of three years commencing from 22 January 2021 to 21 January 2024. On 19 January 2024, NetDragon (Fujian) entered into the renewal tenancy agreement with Fuzhou 851 to renew the 2021 Renewal Tenancy Agreement (the "2024 Renewal Tenancy Agreement") for a term of three years commencing from 22 January 2024 to 21 January 2027. According to *HKFRS 16 ''Leases''* which has come into effect on 1 January 2019, the Group is required to recognise the value of the right-of-use assets on its statement of financial position in connection with the 2021 Renewal Tenancy Agreement, this transaction will be regarded as acquisition of assets by the Group pursuant to the Listing Rules. The transaction contemplated under the 2021 Renewal Tenancy Agreement and 2024 Renewal Tenancy Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules.

On 19 January 2024, NetDragon (Fujian), as tenant, and Fuzhou 851, as landlord entered into a tenancy agreement ("Zhenhua Building Tenancy Agreement") for the lease in respect of the Zhenhua Building (振華大廈), which is located at No. 58 Hot Spring Branch Road, Gulou District, Fuzhou City, Fujian Province, the PRC for a term of three years for a total annual rent of RMB26.6 million. Further details of the Zhenhua Building Tenancy Agreement are set forth in the announcement of the Company dated 19 January 2024. The transactions contemplated under the Zhenhua Building Tenancy Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing rules.

CONNECTED TRANSACTIONS (Cont'd)

Capital Contribution Agreement

On 29 April 2022, TQ Online, an indirect wholly-owned subsidiary of the Company, together with other investors who have agreed to make monetary capital contributions (the "Investors") and existing shareholders of Wuxi Mesh Tech Co., Ltd ("Wuxi Mesh Tech"), entered into a capital contribution agreement (the "Capital Contribution Agreement"), pursuant to which, amongst other things, TQ Online has conditionally agreed to make a capital contribution (the "Capital Contribution") in the amount of RMB50 million to Wuxi Mesh Tech in two installments. Regarding the first instalment, within 10 days upon execution of the Capital Contribution Agreement, TQ Online shall pay RMB20 million to Wuxi Mesh Tech. Regarding the second instalment, upon (i) the satisfaction of conditions precedent as stated in the Capital Contribution Agreement and (ii) within 10 business days after Wuxi Mesh Tech has completed the registration procedure with the relevant Administration of Industry and Commerce of the PRC in respect of change in registered capital of Wuxi Mesh Tech and obtain a new business licence, TQ Online shall pay RMB30 million to Wuxi Mesh Tech. Upon completion, TQ Online will hold approximately 2.27% of the total equity interest in Wuxi Mesh Tech. The Directors are of the view that the Capital Contribution will help the Group to capitalize on opportunities in terms of strategic synergies through potential application of the technology of Wuxi Mesh Tech in the future to broaden and enhance the Company's product portfolio, as well as capturing the financial return from the grown of the fast-growing touch user interface industry, given the proprietary technologies of Wuxi Mesh Tech and a global addressable market size. For further details regarding the Capital Contribution Agreement, please refer to the announcements of the Company dated 29 April 2022 and 23 May 2022.

Pursuant to the terms of the Capital Contribution Agreement, TQ Online and the Investors agreed to make monetary capital contributions to Wuxi Mesh Tech as follows:

Party	**Total capital contribution to be made** *RMB million*	**Approximate percentage of equity interest in Wuxi Mesh Tech immediately after completion of the Capital Contribution**
TQ Online	50	2.27%
Investors (excluding TQ Online)	150	6.82%
Total	200	9.09%

As Wuxi Mesh Tech is indirectly held as to approximately 61.53% by the family members of Mr. Lin Dongliang, a non-executive director of the Company (including his son and his spouse) and therefore, Wuxi Mesh Tech is a connected person of the Company under the Listing Rules. As such, the entering into of the Capital Contribution Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

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

ND STRUCTURE CONTRACTS

ND Cooperation Framework Agreement

With a view to offer further protection to the interests of the Company and the shareholders as a whole by means of contractual arrangements, Fujian TQ Digital Inc. (福建天晴數碼有限公司) ("TQ Digital") and Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") and its equity holders entered into the structure contracts (together with the contracts entered into between NetDragon (Fujian) and Fujian TQ Online Interactive Inc. ("TQ Online") as set out below, the "ND Structure Contracts"), which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007. On 11 October 2023, the relevant parties have entered into the supplemental agreements (the"Supplemental ND Structure Contracts") to address the departure of Mr. Zheng Hui (the deceased) to transfer his equity interest in NetDragon (Fujian) to his son, Mr. Zheng Yi Cheng. The registered owners of NetDragon (Fujian) are: (i) Liu Luyuan, an executive Director (as to approximately 0.07%), (ii) Zheng Yicheng, a senior management of the Group (as to approximately 99.89%), (iii) Chen Minlin, an employee of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") (as to approximately 0.02%), and (iv) Lin Yun, an employee of the Group (as to approximately 0.02%).

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

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

ND Equity Interest Pledge Agreement

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

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

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

ND Equity Holders' Voting Rights Proxy Agreement

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

ND Other Contracts

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

Change in one of the Registered Owners of NetDragon (Fujian)

On 3 May 2021, the then registered owners of NetDragon (Fujian), NetDragon (Fujian) and TQ Digital have entered into a series of agreements in relation to the change in registered owner of equity interests in NetDragon (Fujian) from Liu Dejian to Zheng Hui.

On 11 October 2023, the relevant parties have entered into the following agreements to address the departure of Mr. Zheng Hui (the deceased) to transfer his equity interest in NetDragon (Fujian) to his son, Mr. Zheng Yi Cheng:

(1) the Equity Transfer Agreement entered into between Mr. Zheng Yi Cheng and Ms. Chen, the spouse of Mr. Zheng Hui, to transfer all Ms. Chen's shares in NetDragon (Fujian) arising from the laws and regulations of the PRC following the decease of Mr. Zheng Hui on 7 June 2023 to Mr. Zheng Yi Cheng;

(2) the supplemental ND Structure Contracts, which included:

    (i) the supplemental equity interest pledge agreement entered into between TQ Digital and Mr. Zheng Yi Cheng, pursuant to which Mr. Zheng Yi Cheng agreed to grant to TQ Digital a continuing first priority security interests over the equity interest; and

    (ii) the supplemental agreement entered into between TQ Digital, NetDragon (Fujian), and the registered owners to amend (a) the agreement for the exclusive right to acquire equity interest and assets; (b) the equity holders' voting rights proxy agreement; and (c) the equity interest pledge Agreement, pursuant to which, among other things, upon completion of registration of change in equity interest as a result of the Equity Transfer at the relevant PRC authority, the rights and obligations under these three agreements imposed on the remaining registered owners remain unchanged. The supplemental agreement also amended the previous ND Structure Contracts to comply with the guidance letter of the Stock Exchange; and

(3) the spousal consent entered into between Mr. Zheng Yi Cheng and Ms. Hu, the spouse of Mr. Zheng Yi Cheng, pursuant to which Ms. Hu, has undertaken: (i) not to take any action with the intent to interfere with the arrangements under the previous ND Structure Contracts as amended by the supplemental agreements, including making any claim that such equity interest constitutes the property or community property; and (ii) to unconditionally and irrevocably waive any and all rights or entitlements whatsoever to such equity interest that may be granted to the spouse according to any applicable laws.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW

As Mr. Zheng Hui, being the former executive Director in the last 12 months, is a connected person of the Company. Mr. Zheng Yi Cheng, the son and thus an associate of Mr. Zheng Hui, is a connected person of the Company. NetDragon (Fujian) is therefore technically an associate of Mr. Zheng Yi Cheng, and a connected person of the Company. Transactions between the Company, NetDragon Websoft Inc. ("NetDragon (BVI), TQ Digital, TQ Online or NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)") or NetDragon Websoft Inc. ("NetDragon (USA)") (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts as amended by the Supplemental ND Contracts, would technically constitute continuing connected transactions under the Listing Rules. The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the ND Structure Contracts and the ND Other Contracts. Details of the waiver, together with its conditions, are set forth in the listing document of the Company dated 27 May 2008 (the "Listing Document").

BEST ASSISTANT CONTROL DOCUMENTS

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

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

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

The amount of revenue and assets subject to the contractual arrangements under the ND Structure Contracts and the Best Assistant Control Documents accounted for approximately 45.5% and 9.1% of the Group's total revenue and assets, respectively, for the year ended 31 December 2023.

The Company's independent non-executive Directors have reviewed the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2023 have been entered into in accordance with the relevant provisions of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents, have been operated so as to allow (a) the economic interest generated by NetDragon (Fujian) flows to TQ Digital and TQ Online; and (b) the economic interest generated by Fujian Huayu flows to Fujian Tianquan; and the new structure contracts (including the Best Assistant Control Documents) entered into, renewed and/or cloned during the year ended 31 December 2023 were entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

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

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

Save for the entering into of the Best Assistant Control Documents, details of which are disclosed below, there were no other new arrangements pursuant to or under the contractual arrangements entered into, renewed or reproduced between the Group and the PRC operational entity during the year ended 31 December 2023, and there was no material change in the contractual arrangements and/or the circumstances during the year ended 31 December 2023.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement (Cont'd)

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

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

Best Assistant Equity Interest Pledge Agreement

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

Best Assistant Exclusive Acquisition Rights Agreement

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Proxy Agreement

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

REASONS FOR ENTERING INTO THE CONTRACTUAL ARRANGEMENTS

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

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

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

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

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

1. requiring the nullification of the contractual arrangements;

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

ACTIONS TAKEN BY THE GROUP TO MITIGATE THE RISKS

During the year ended 31 December 2023, the Group has implemented the following measures to ensure the effective operation of the Structured Contracts and the Group' s compliance with the Structured Contracts:

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

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

TRANSACTION IN RELATION TO RECREATION CENTRE AGREEMENT BETWEEN TQ DIGITAL AND FUZHOU 851

On 24 April 2018, NetDragon (Fujian) entered into the renewal recreation centre agreement (the "2018 Renewal Recreation Centre Agreement"), pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at the Recreation Centre to the Group and its staff for a period from 25 April 2018 to 24 April 2021 at an annual fee of RMB9.5 million (equivalent to approximately HKD11.8 million).

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

On 23 April 2021, NetDragon (Fujian) entered into the renewal recreation centre agreement (the "2021 Renewal Recreation Centre Agreement"), pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at the Recreation Centre to the Group and its staff for a period from 25 April 2021 to 24 April 2024 at an annual fee of RMB11.7 million (equivalent to approximately HKD14 million).

Further details of the 2021 Renewal Recreation Centre Agreement are set forth in the announcement of the Company dated 23 April 2021.

CONFIRMATION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have reviewed the above transaction conducted during the year ended 31 December 2023 and confirmed that the transaction:

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

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

(iii) has been entered into in accordance with the 2018 Renewal Recreation Centre Agreement and the 2021 Renewal Recreation Centre Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) has not exceeded the annual cap for the year ended 31 December 2023 as disclosed in the relevant announcement the Company.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

COMPLIANCE WITH DISCLOSURE REQUIREMENTS

For further details of the nature and extent of each of the connected person's interest in each of the Transactions, please refer to the section headed "Corporate Governance Report – Directors' Interest In Transaction, Arrangement or Contract" below. The Company has complied with the applicable requirements of Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

AUDITOR'S LETTER ON DISCLOSED CONTINUING CONNECTED TRANSACTIONS

In addition, the Company has engaged its auditor to report on the ND Structure Contracts, the ND Other Contracts, the Best Assistant Control Documents and the Transactions under the 2021 Renewal Recreation Centre Agreement of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified opinion containing the conclusion in respect of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents which are in compliance with the Rule 14A.56 of the Listing Rules.

The auditor has also issued unqualified opinion containing the conclusions in respect of the transaction under the 2021 Renewal Recreation Centre Agreement set out above which are in compliance with the Rule 14A.56 of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

The audit committee is primarily responsible for the review and supervision of the Group's financial reporting process, risk management and internal control system. It has met with the external auditors of the Group to review the accounting principles and practices adopted by the Company and the audited annual financial statements of the Group for the year ended 31 December 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix C3 of the Listing Rules and the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2023.

CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the year ended 31 December 2023 as contained in Appendix C1 of the Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out on pages 70 to 83.

PERMITTED INDEMNITY

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

COMPETITION AND CONFLICT OF INTERESTS

None of the Director nor any of their respective associates, as defined in the Listing Rules, has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at 31 December 2023 and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2023, the Company bought back a total of 9,844,500 shares on the Stock Exchange at an aggregate consideration of HKD146.7 million before expenses. All such shares were subsequently cancelled in June 2023. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES (Cont'd)

Details of the share buy-backs are as follows:

Month of purchase	Number of ordinary shares bought back	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HKD	*HKD*	*HKD million*
April 2023	3,633,500	15.44	14.46	54.4
May 2023	4,450,000	15.62	13.96	66.0
June 2023	1,761,000	15.28	14.20	26.3

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2023.

PUBLIC FLOAT

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

SHARE OPTION SCHEME

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

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

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

SHARE OPTION SCHEME (Cont'd)

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the 2018 Share Option Scheme is 53,341,969 shares, representing 10% of the issued shares of the Company as at the date of adoption of the Share Option Scheme and 10% of the issued shares of the Company as at the date of this annual report. As at the date of this report, there are a total of 47,041,969 shares available for issue under the 2018 Share Option Scheme, which represented 8.9% of the issued shares of the Company. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HKD5 million, are subject to shareholders' approval in advance in a general meeting.

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

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

SHARE OPTION SCHEME (Cont'd)

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "2018 Share Option Scheme") to replace the existing share option scheme which expired on 12 June 2018 (the "2008 Share Option Scheme"). Details of the share options outstanding and movement during the year ended 31 December 2023 are as follows:

2008 Share Option Scheme

Grantee	Date of grant	Exercise Price *HKD*	As at 1 January 2023	Number of share options Granted	Exercised	Cancelled	Lapsed	As at 31 December 2023
Independent non-executive Directors								
Lee Kwan Hung, Eddie	04.12.2013	15.72	318,000	–	318,000	–	–	–
	31.03.2017	23.65	100,000	–	–	–	–	100,000
Liu Sai Keung, Thomas	04.12.2013	15.72	318,000	–	–	–	318,000	–
	31.03.2017	23.65	100,000	–	–	–	–	100,000
Others								
Employees	16.01.2013	11.164	48,500	–	45,400	–	3,100	–
	04.12.2013	15.72	238,500	–	–	–	238,500	–
	31.03.2017	23.65	100,000	–	–	–	–	100,000
Total			1,223,000	–	363,400	–	559,600	300,000

SHARE OPTION SCHEME (Cont'd)

2018 Share Option Scheme

Grantee	Date of grant	Exercise Price	As at 1 January 2023	Granted	Number of share options Exercised	Cancelled	Lapsed	As at 31 December 2023
		HKD						
Executive Directors								
Leung Lim Kin, Simon	24.01.2020	21.07	4,000,000	–	–	–	–	4,000,000
Independent non-executive Directors								
Lee Kwan Hung, Eddie	24.01.2020	21.07	100,000	–	–	–	–	100,000
Liu Sai Keung, Thomas	24.01.2020	21.07	100,000	–	–	–	–	100,000
Others								
Employees	24.01.2020	21.07	1,100,000	–	–	–	–	1,100,000
Total			5,300,000	–	–	–	–	5,300,000

Notes:

1. For vesting period and exercise period of the options granted under the 2008 Share Option Scheme and the 2018 Share Option Scheme, please refer to note 38 of the Notes to the Condensed Consolidated Financial Statements.

2. The weighted average closing price of the shares immediately before various dates during 2023 on which the options were exercised was HKD16.51.

As at 31 December 2023, no options were granted under the 2018 Share Option Scheme. 47,041,969 Options are available for grant under 2018 Share Option Scheme at the beginning and the end of the period ended 31 December 2023.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme disclosed above and set out in note 38 of Notes to the Consolidated Financial Statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

SHARE AWARD SCHEME

The Company

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

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

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

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

As at 31 December 2023, 120,000 awarded shares were granted under the NetDragon Share Award Scheme. 47,885,103 awards are available for grant under NetDragon Share Award Scheme at the year ended 31 December 2023.

Details of the shares awarded under the NetDragon Share Award Scheme during the year ended 31 December 2023 are as follows:

Grantee	Date of grant	Average price per share *(HKD)* *(Note)*	Outstanding at 1 January 2023	Granted during period	Awards vested during period	Forfeited during period	Outstanding at 31 December 2023	Vesting period
Executive Directors								
Leung Lim Kin Simon	27 July 2023	18.96	–	240,000	240,000	–	–	27 July 2023
Leung Lim Kin, Simon	27 October 2023	18.96	–	120,000	120,000	–	–	27 October 2023
				360,000	360,000	–	–	

Note:

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

2. In 2023, the weighted average closing price of the shares immediately before the date of grant of the awarded shares was HKD14.41.

SHARE AWARD SCHEME (Cont'd)

Best Assistant Education Online Limited ("Best Assistant")

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

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

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

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

As at 31 December 2023, all awarded shares (164,546,057 awarded shares) were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

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

Following the BA Repurchase (as defined below) on 12 December 2023, all Series A Shares were repurchased by Best Assistant.

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

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

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

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

Following the BA Repurchase (as defined below) on 12 December 2023, all series B Shares were repurchased by Best Assistant.

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

On 10 November 2019, the Company, Best Assistant, NetDragon BVI, Digital Train, Promethean World Limited, Nurture Education (Cayman) Limited (the "Investor"), Madison Pacific Trust Limited as the Agent and the Security Agent entered into the Bond and Warrant Purchase Agreement (the "Purchase Agreement"). Upon completion of the Purchase Agreement on 9 March 2020, (i) Best Assistant issued to the Investor the Convertible and Exchangeable Bonds in the aggregate principal amount of USD150 million (equivalent to approximately HKD1,174.5 million) which can originally be converted to 279,510,479 ordinary shares of Best Assistant; and (ii) the Company issued to the Investor the unlisted warrants which can be converted to 11,502,220 Warrant Shares of the Company with initial subscription price of HKD21.1998 (subject to adjustment). Such issuance is a strategic collaboration with the Investor, an institutional investor with extensive experience and active investments in the Greater China education sector. The net proceeds raised from such issuance were also applied and fully utilized as intended.

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 has been adjusted from HKD21.1998 to HKD19.6698 on 28 February 2022, and further adjusted to HKD18.8698 on 31 October 2022.

On 18 April 2023, parties to the Purchase Agreement and certain other subsidiaries of the Company entered into a deed of amendment, conditional waiver and redemption in relation to the Convertible and Exchangeable Bonds, pursuant to which Best Assistant redeemed USD125 million of the principal amount of the Convertible and Exchangeable Bonds on 12 December 2023. The remaining USD25 million of the principal amount of the Convertible and Exchangeable Bonds remain outstanding.

As at 31 December 2023, 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, Inc. ("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, Elernity (Thailand) Co., Ltd. and Sky Knight Investments Limited) to eLMTree; (ii) (a) all shares reserved by Best Assistant under the Best Assistant Share Award Scheme being granted, (b) certain inter-company loans from the Company or NetDragon BVI, on the one hand, to Best Assistant or any subsidiary thereof, on the other hand, being cancelled in exchange for the issuance of certain ordinary shares of Best Assistant to NetDragon BVI, and (c) interests in Best Assistant held by all existing shareholders of Best Assistant (except for one ordinary share of Best assistant held by NetDragon BVI) being repurchased in exchange for ordinary shares of eLMTree ,(the "BA Repurchase") or otherwise being procured that such shares of the Company are exchanged for newly-issued ordinary shares of eLMTree in any other manner permitted by applicable law; and (iii) Bright Sunlight merging with and into eLMTree with eLMTree surviving after the merger (the "Merger").

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

Merger and Proposed Spin-off (Cont'd)

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

Distribution in Specie

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

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2023 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), the auditor of the Company. A resolution will be submitted in the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board

Leung Lim Kin, Simon
Vice Chairman

Hong Kong, 27 March 2024

CORPORATE GOVERNANCE REPORT

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

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") contained in Appendix C1 of the Listing Rules.

Throughout the year, save as disclosed in this Corporate Governance Report, the Company has complied with the provisions as set out in the CG Code in Appendix C1 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established its code of conduct regarding securities transaction by Directors, senior management and relevant employees on terms no less exacting than the required standard indicated by the Model Code as set out in Appendix C3 to the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year under review.

THE BOARD

The Board is composed of four executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 20 to 28. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

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

Duties of the Board including delegation to management

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

Duties of the Board include:

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

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

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

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

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

During the year ended 31 December 2023, the Board held four meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2023 is set out below:

Directors	Full Board	Audit Committee	Remuneration Committee	Nomination Committee	Share Award Scheme Committee*	Annual General Meeting	Extraordinary General Meeting
Executive Directors							
Liu Dejian (Chairman)	4/4	N/A	N/A	N/A	N/A	0/1	0/1
Leung Lim Kin Simon (Vice Chairman)	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Liu Luyuan (Chief Executive Officer)	4/4	N/A	N/A	N/A	N/A	0/1	0/1
Zheng Hui (deceased on 7 June 2023)	1/4	N/A	N/A	N/A	N/A	0/1	0/1
Chen Hongzhan	4/4	N/A	N/A	N/A	N/A	0/1	0/1
Non-executive Director							
Lin Dongliang	4/4	N/A	N/A	N/A	N/A	0/1	0/1
Independent non-executive Directors							
Lee Kwan Hung, Eddie	4/4	4/4	1/1	1/1	N/A	1/1	1/1
Liu Sai Keung, Thomas	4/4	4/4	1/1	1/1	N/A	1/1	0/1
Li Sing Chung Matthias	4/4	4/4	1/1	1/1	N/A	1/1	0/1

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

The CG Code provision F.2.2 requires that the Chairman of the Board should attend the annual general meeting of the Company ("AGM") and should invite the Chairman of the audit, remuneration, nomination and any other committee (as appropriate) to attend the AGM and in their absence, he should invite another member of the committee or failing this his duly appointed delegate(s) to attend. These persons should be available to answer questions at the AGM. At the AGM held on 1 June 2023, Dr. Leung Lim Kin, Simon, the vice chairman of the Board, Mr. Li Sing Chung Matthias, the chairman of the audit committee, Mr. Lee Kwan Hung, Eddie, the chairman of remuneration committee and Mr. Liu Sai Keung, Thomas, the chairman of nomination committee, attended and answered shareholders' questions, the Chairman of the Board and the other Directors did not attend as they had other important business engagement.

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

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

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

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

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

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT

With reference to the ND Structure Contracts entered into among TQ Digital, TQ Online and NetDragon (Fujian), the executive Director, Mr. Liu Luyuan is interested in an aggregate of 0.07% in NetDragon (Fujian). Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts would technically constitute connected transactions. Details for the ND Structure Contracts and the ND Other Contracts are set out in pages 42 to 47 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

With reference to the Best Assistant Control Documents entered into among Fujian Huayu and NetDragon (Fujian), NetDragon (Fujian) and Fujian Huayu (being a subsidiary of NetDragon (Fujian)) are technically associates of Dr. Liu Dejian and Mr. Liu Luyuan, and therefore connected persons of the Company. Transactions between the Company or its subsidiaries, except Best Assistant (Cayman) and subsidiaries of Best Assistant (Cayman) (the "Best Assistant Group Companies") on one hand and Best Assistant (Cayman) or Best Assistant Group Companies on the other hand, including the Best Assistant Control Documents would technically constitute connected transactions. Details for the Best Assistant Control Documents are set out in pages 47 to 51 in the section of "Report of the Directors" under the paragraphs of "Best Assistant Control Documents".

With reference to the connected transactions for the Renewal Tenancy Agreement entered into between TQ Digital or NetDragon (Fujian) on one hand and Fuzhou 851 on the other hand and with reference to the continuing connected transactions for the Renewal Recreation Centre Agreement and the Renewal Recreation Centre Agreement entered into between TQ Digital or NetDragon (Fujian) on one hand and Fuzhou 851 on the other hand, Fuzhou 851 is wholly owned by DJM Holding Ltd., a substantial shareholder of the Company. Thus, Fuzhou 851 is deemed to be a connected person to the Company.

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

With reference to the Capital Contribution Agreement entered into among TQ Online, the Investors and the existing shareholders of Wuxi Mesh Tech, TQ online has, amongst other things, conditionally agreed to make Capital Contribution in the amount of RMB50 million to Wuxi Mesh Tech in two installments. Wuxi Mesh Tech is indirectly held as to approximately 61.53% by the family members of Mr. Lin Dongliang, a non-executive director of the Company (including his son and his spouse). Thus, Wuxi Mesh Tech is considered as a connected person to the Company.

Details for the continuing connected transactions are set out in pages 42 to 57 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance of the Company during the year ended 31 December 2023 or as at the end of the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision. The primary duties of our audit committee are to review and supervise our financial reporting process, risk management, internal control and corporate governance systems.

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

The Audit Committee held two meetings during the year ended 31 December 2023. The major work performed by the Audit Committee in respect of the year ended 31 December 2023 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2023, reviewing the audited financial statements and final results announcement for the year ended 31 December 2023, reviewing the work of the Group's internal audit and assessing the effectiveness of the Group's systems of internal control, risk management, corporate governance and cost control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, and training programmes and budget.

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

The Group's audited consolidated financial statements for the year ended 31 December 2023 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

The Board, based on the review of the Audit Committee, is satisfied that the Group has maintained sound and effective risk management and internal control system for the year ended 31 December 2023.

The procedures and internal controls of the Company for handling and dissemination of inside information includes handling corporate affairs in accordance with the Guidelines on Disclosure of Inside Information published by Securities and Futures Commission and the Listing Rules, and reminding the Directors and employees of the Group regularly about due compliance with all policies regarding the inside information.

REMUNERATION COMMITTEE

The Company established the remuneration committee (the "Remuneration Committee") on 15 October 2007 which adopts the model as described in E.1.2 (c) (ii) of CG Code, which determines remuneration packages and policy for all executive Directors and senior management and makes recommendation on the remuneration of non-executive Directors to the Board. The remuneration of all our Directors and senior management is subject to regular monitoring by the Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate.

During the year ended 31 December 2023, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Remuneration Committee also reviewed the remuneration of the Directors by assessing their performance and with reference to the remuneration level of directors of comparable listed companies and approved the terms of the executive Directors' service contracts.

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

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

EMPLOYEE AND EMOLUMENT POLICY

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

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

The Group has adopted the Share Option Scheme, the NetDragon Share Award Scheme and the Best Assistant Share Award Scheme to motivate Directors and eligible employees. Details of the schemes are set out in the paragraphs headed "Share Option Scheme" and "Share Award Scheme". None of the directors waived any emoluments during the year ended 31 December 2023.

NOMINATION COMMITTEE

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

During the financial year ended 31 December 2023, a meeting was held to review the structure, size and composition of the Board and assessed the independence of the three independent non-executive Directors of the Company. The Nomination Committee is of the view that the current Board demonstrates a balanced composition with sufficient independence element.

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

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

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

Board Diversity Policy

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

The following is a summary of the board diversity policy:

- reviewing and assessing the composition of the Board to maintain an appropriate range and balance of talents, skills, experience and background on the Board;

- recommending candidates for appointment to the Board by considering merit against objective criteria and with due regard for the benefits of diversity on the Board; and

- conducting an annual review of the effectiveness of the Board by considering the balance of talents, skills, experience, independence and knowledge of the Board and the diversity of the Board.

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

The Board currently has no female Director. Under the revised Rule 13.92 of the Listing Rules that came into effect on 1 January 2022, a single gender Board will not be considered by the Stock Exchange to have achieved Board diversity. The Company targets to comply with this requirement by appointing at least one female director on the Board no later than 31 December 2024, being the end of the transitional period as specified by the Stock Exchange.

Details of the gender ratio in workforce (including senior management) are set out in the "Environment, Social and Governance Report" on page 133.

Nomination Policy

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

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

(a) Reputation for integrity;

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

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

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

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

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

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

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

ND MANAGEMENT COMMITTEE

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

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

Currently, the ND Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by NetDragon (Fujian), and Zheng Yicheng and Chen Hongzhan who were appointed by TQ Digital. The directors of NetDragon (Fujian) comprise Liu Dejian, Liu Luyuan, Wang Song and Zheng Yicheng. Zheng Yicheng is also the general manager of NetDragon (Fujian). Further details of the above members of the ND Management Committee are set out in the section headed "Directors and Senior Management" in this annual report.

BEST ASSISTANT MANAGEMENT COMMITTEE

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

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

SHARE AWARD SCHEME COMMITTEE

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

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

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. The Directors confirmed that they have complied with the Code Provision C.1.4 of the CG Code on Directors' training. In 2023, all Directors have participated in continuous professional development by reading materials/in house briefing on regulatory and corporate governance matters to develop and refresh their knowledge.

DIRECTORS' INSURANCE

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

AUDITOR'S REMUNERATION

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

	RMB million
Audit services	13
Non-audit services	23
	36

The above non-audit services include professional advisory fees relating to the interim review services and financial and tax advisory services.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The statements of the Company's external auditors regarding their responsibilities on the financial statements are set out in the Independent Auditor's Report on pages 144 to 148.

COMPANY SECRETARY

Mr. Lau Hak Kin, Financial Controller and Head of Compliance and Corporate Affairs of the Company, has been appointed by the Company as company secretary since September 2014. He is also the primary contact person of the Company. During the year ended 31 December 2023, Mr. Lau Hak Kin has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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

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

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar and transfer office: Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIVIDEND POLICY

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

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

— the Articles of Association of the Company;

— the applicable restrictions and requirements under the laws of the Cayman Islands;

— any banking or other funding covenants by which the Company is bound from time to time;

— the investment and operating requirements of the Company; and

— any other factors that have material impact on the Company.

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company recognises the importance to maintain a transparent and on-going dialogue with the shareholders. A shareholders' communication policy, which is reviewed by the Board on regular basis, had been established to promote effective engagement with individual and institutional shareholders, investors and other stakeholders, giving them ready access to balanced and understandable information about the Company and corporate proposals.

The Board strives to encourage and maintain constant dialogue with the shareholders through various means. The Directors convene annual general meeting every year to meet the shareholders and answer their enquiries. The management personnel responsible for investor relations meets regularly with equity research analysts, fund managers and institutional shareholders and investors. The Company updates the shareholders on its latest business developments and financial performance through corporate communication documents like annual and interim reports. The Company's website (www.nd.com.cn) provides the latest corporate information and serves as an effective communication platform with the public and shareholders.

The Company has assessed the above communication channels with the Shareholders and considered that the Shareholder Communication Policy is well implemented and effective for the year ended 31 December 2023.

During the year ended 31 December 2023, the Company has amended and restated its Memorandum and Articles of Association on 1 June 2023. An up to date version of the Memorandum and Articles of Association is available on the Company's website and the Stock Exchange's website.

The AGM will be held at Boardroom 3-4, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 6 June 2024.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Reporting Period and Scope

This Environmental, Social and Governance ("ESG") Report ("the Report") covers the sustainability strategies and ESG performance of NetDragon Websoft Holdings Limited ("the Company" or "We") and together with its subsidiaries (stock code: 0777) ("NetDragon" or "the Group") for the period from 1 January to 31 December 2023 ("the Reporting Period" or "the Year").

The Report encompasses NetDragon's gaming business primarily based in the People's Republic of China ("the PRC") and education technology business primarily based in the United States ("the US") and Europe. This Report also contains details of our sustainable development, vision and progress made on the implementation of our ESG strategy during the Year.

The qualitative and quantitative information regarding the Group's approach, initiatives and priorities in managing material ESG aspects are disclosed in the Report. For further disclosures on corporate governance, please refer to the Corporate Governance Report of NetDragon's 2023 Annual Report.

Reporting Standard

The Report has been prepared in accordance with the "mandatory disclosure requirements" and adheres to the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide ("ESG Guide") under Appendix C2 of the Main Board Listing Rules issued by The Stock Exchange of Hong Kong Limited ("SEHK").

Reporting Principles

- **Materiality:** Material topics are identified, assessed, reviewed and confirmed by senior management and materiality issues verified by the Board of Directors are disclosed with emphasis to ensure their significance.

- **Quantitative:** Applicable quantitative key performance indicators outlined in Appendix C2 of the ESG Guide under SEHK's Main Board Listing Rules are disclosed to comprehensively evaluate the Group's ESG performance during the Reporting Period. The calculation methods, standards, assumptions, and references for the quantitative data, as well as the sources of the main emissions factors and definitions of terms are also provided.

- **Balance:** The ESG performance data is disclosed on an unbiased basis with a full picture of both our accomplishments for the Reporting Period and potential for enhancement in the future.

- **Consistency:** The data is calculated using consistent methodologies to allow effective year-over-year comparisons and objectively present the Group's ESG management performance.

Contact

We appreciate your feedback on our report, reporting content and sustainability performance. Please contact us through our Investor Relations department:

Mail: Room 2001-05 & 11, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

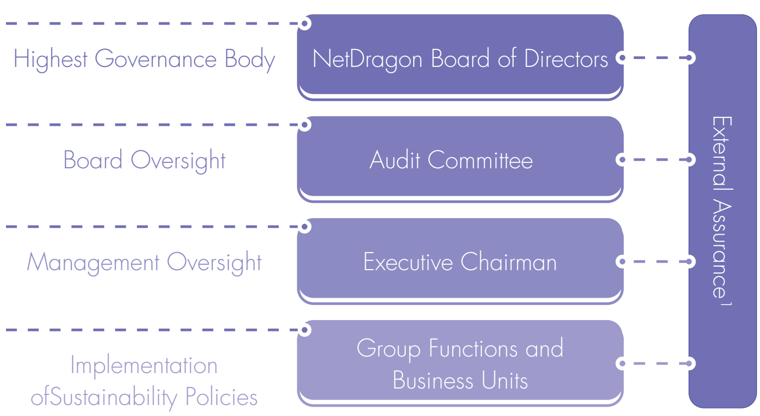
Email: ir@netdragon.com

2. SUSTAINABILITY GOVERNANCE

As a prominent online games pioneer in China and global leader in education technology, NetDragon takes on a sense of social responsibility befitting a publicly listed company and maintains high levels of sustainability governance standards. Our commitment to corporate social responsibility is deeply ingrained in the corporate culture, aiming to achieve the perfect balance between economic growth, social progress, and environmental protection. In doing so, we not only drive sustainable growth but also deliver stable returns to investors, laying a solid foundation for our future development.

The Group has established a comprehensive governance structure led by the Board of Directors, under which each function contributes diligently and prudently to advancing the Group's sustainability efforts, working together towards achieving the organisational sustainability goals.

Governance Structure



NetDragon's ESG management structure and the respective roles of each layer are as follows:

NetDragon Board of Directors	• Supervise the practices and implementation procedures for corporate governance • Maintain appropriate and effective risk management and internal control systems to ensure compliance with all applicable regulations within the Group • Review and approve ESG reports
Audit Committee	• Assist the Board of Directors in verifying the objectivity and credibility of financial reports, and ensure that directors act in accordance with the *Director's Responsibility Guidelines* when disclosing financial results to shareholders. • Assist the Board of Directors in establishing effective risk management and internal control systems, while maintaining good corporate governance standards and practices. • Review ESG reports and provide recommendations for review and approval by the Board of Directors.
Executive Chairman	Serve as general ESG management consultant under the full authorisation of the Board of Directors.
Group Functions and Business Units	• Our various business units promote the implementation of the Group's ESG policy and integrate ESG targets into the Group's daily operations. • Our subsidiaries formulate and implement ESG-related measures in accordance with the Group's ESG policies and targets, taking into account their own business characteristics and actual circumstances, and collect and summarise the progress and performance of ESG work. • All group functions, business units, and subsidiaries assist in the preparation of ESG reports and conduct ESG-related research.
External Assurance	• **Note 1:** The Audit Committee conducts semi-annual reviews of the effectiveness of our internal control efforts with third-party assistance to comply with the relevant provisions of the Corporate Governance Code of the Main Board Listing Rules issued by SEHK

2.1 Board Independence, Diversity and Performance

We firmly believe that a diverse Board serves as one of the key factors in enhancing our overall performance. Board diversity not only broadens our perspectives but also translates into better decisions and outcomes. In addition to skills, knowledge, and professional experience, the Group considers and balances differences in background, ethnicity, age, gender, and service experience of our Board members. The Board's mission is to select and appoint outstanding individuals to its membership on the basis of merit as well as their contribution to the Group's strategic objectives and sustainable development. We established a Board diversity policy in 2013, which has been under continuous monitoring and maintenance. Aligned with the policy, we have recently appointed a new board member for optimal Board tenure. These directors will stand together to lead the Group towards a more prosperous and sustainable future.

During the Reporting Period, NetDragon received annual confirmation of their independence from each independent non-executive director in accordance with Rule 3.13 of the Listing Rules. These directors have more than 10 years of experience in corporate operations and management, well-versed in all aspects therein. The Nomination Committee is confident that they exhibit total independence of character and judgement in their duties as Board members and designated roles.

Besides diversity criteria and independence requirements, we perform regular self-assessment of Board performance to monitor Board effectiveness and systematically evaluate their performance for the past financial year.

2.2 Business Ethics and Compliance

2.2.1Business Ethics and Oversight

The Group has always been committed to maintaining excellent corporate governance performance. We view corporate governance as a driving force for our sustainable development and place high importance on business ethics and integrity. To ensure effective management, we conduct our business activities in all functional and business units with the highest ethical standards. To fulfil this commitment, we entrusted third-party to assess our ethical standards.

All stakeholders who engage in business with the Group, including suppliers, service providers, contractors and customers, are required to comply with the integrity provisions in our bidding/tender documents and contracts. In terms of supplier management, our Internal Audit department and Human Resources department actively communicate relevant business ethics principles to suppliers and business partners, ensuring that they share our commitment to upholding high standards of business ethics.

In terms of employee management, all new hires are required to sign a "Confidentiality and Integrity Statement" to ensure that they practice good business ethics from day one. We also require procurement staff to sign the *Procurement Department Violations and Penalties Rules* and to comply with conflict of interest provisions. Meanwhile, we have formulated the *Code of Conduct for Avoiding Conflicts of Interest*, which requires employees to conduct self-examination and declaration of organisational beneficial interests, in order to identify and prevent potential conflicts of interest and to prevent and control staff management risks. We have set up a dedicated team to handle conflicts of interest, investigate and assess potential conflicts and develop mitigation strategies as appropriate.

The Group has also introduced a feature in its Office Automation (OA) system to collect anonymous complaints about unfair policies and rules or unethical behaviour of employees, especially those in middle and senior management positions.

2.2.2Anti-Corruption

NetDragon adopts a zero-tolerance attitude towards corruption and bribery. The Group requires all subsidiaries to comply with anti-corruption legislation in the jurisdictions where they operate, such as the *Prevention of Bribery Ordinance* in Hong Kong and the *Foreign Corrupt Practices Act* in the US. They are also required to implement the *OECD Anti-Bribery Convention* throughout their operations.

The Group has established an internal anti-corruption management system in accordance with the above-mentioned laws and regulations. We regulate employee behaviour through internal policies such as the *Employee Misconduct Handling and Management Measures*, which define and impose penalties for corruption and commercial bribery, establishing robust business ethics rules and codes of conduct.

Employee Misconduct Handling and Management Measures (excerpt)
Employees found to have engaged in misconduct that seriously damages (potentially or in reality) the Company's reputation or interests, such as theft, embezzlement, misappropriation of company funds or other property, abuse of position, fraud, accepting bribes/commissions through abuse of authority, abuse of power, private embezzlement, favouring relatives or seeking personal gain, will have their employment terminated immediately by the Group without compensation.

At the same time, in accordance with the requirements of the Independent Commission Against Corruption (ICAC) of the Hong Kong Special Administrative Region, the Group provides a series of anti-corruption related readers such as the *Business Ethics Training for Listed Companies* and *Anti-Corruption Program – Guidelines* for Listed Company to the Board of Directors and senior management, and organises regular training to strengthen the Group's culture of integrity. These help to ensure that our sustainability goals are delivered.

During the Reporting Period, the Group maintained the highest level of integrity and was not involved in any litigation relating to bribery, extortion, fraud, or money laundering.

2.2.3Reporting Channels

The Group strictly prohibits any unethical business practices and strongly opposes any form of bribery and corruption. To encourage employees to report suspected misconduct in the Group in a confidential manner, we provide a range of reporting channels, including web portal, hotline, email, and intranet.

A reporting feature known as "BUG" has been introduced to our internal OA system. After an investigation by the Internal Audit, if the reported matter is confirmed to be true, the violator will be disciplined by the senior managers of the respective department in accordance with the guidelines provided by the BUG resolution process. The Group plans to develop corresponding internal response procedures for operational problems identified to prevent them from happening again in the future.

To ensure effective whistleblowing, we implement strict confidentiality of the whistleblower's personal information, ensuring that the whistleblower's safety and privacy are thoroughly protected. Our Human Resources department and Internal Audit department work together to ensure that reported matters are handled properly.

Collectively, the above measures and actions instil a culture of integrity in the Group and ensure that this culture is maintained throughout our operations over the long term.

Reporting channels: Internal Bug Collection Cabin, email, 99U and other channels. Email: neishen@nd.com.cn External Senior Staff Commendation/Complaint Collection: https://www.nd.com.cn/2021/collection/? Email: zuzhibu@nd.com.cn

One of our major overseas subsidiaries has released the *Confidential Reporting (Whistle-blowing) Hotline Policy, Procedures and User Guidelines* through internal and external channels. The Guide provides detailed instructions on the reporting procedure as well as reporting channels, and defines reportable matters to help employees accurately identify unethical business conduct.

2.3 ESG Risk Management

Excellent risk management capabilities are critical to NetDragon's continued success. Our risk management team works closely with departments across the Group to maintain a keen insight into policy updates, competitive landscape, and technological trends. Cross-departmental collaboration enables us to identify potential risks that may pose a threat to our business in a timely manner, especially those closely related to sustainability.

In the risk management process, our departments continuously monitor and assess potential risks to ensure effective control and mitigation. As soon as risks are identified, the relevant departments will report immediately to senior management and, under their guidance, quickly develop action plans and management objectives to reduce losses resulting from the risks.

Mindful of the challenges posed by climate change, NetDragon has taken a series of steps to manage physical and transition risks. These measures are designed to strengthen our climate resilience and ensure that our operations are properly equipped against the adverse impacts of these changes. For more information on how we address environmental challenges, please refer to Chapter 5 Environment in the Report.

3. STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

3.1 Stakeholder Engagement Approach

NetDragon is convinced that the collective engagement of internal and external stakeholders is necessary for achieving our ambitious sustainability goals. These stakeholders include not only our employees, but also our customers, suppliers, partners, as well as regulatory bodies and community members who play important roles in our business. To this end, we strive to create an open communication platform where the voices of all stakeholders are heard, ensuring that their expectations and concerns are well understood and addressed.

3.2 Identification and Update of Material Topics

During the Reporting Period, we analysed ESG topics according to their importance to stakeholders and the Group's business development, based on feedback from various communication channels. These topics are grouped into three tiers: General Topic, Moderate Topic and Material Topic. The results are shown below.

Category	Topic	Topic Materiality
Environmental	Climate Change	Moderate Topic
	Air Pollutant Management	
	Water Consumption and Conservation	General Topic
	Energy Management and Carbon Emissions	
	Waste Management	
	Environment and Use of Natural Resources	
Social and Governance	Respect for Intellectual Property Rights	Material Topic
	Data Security and Privacy Protection	
	Product and Services Safety and Quality	
	Innovation Management	
	Corporate Governance	
	Anti-bribery and Anti-corruption	
	Community Investment	Moderate Topic
	Diversity, Inclusion and Equal Opportunities	
	Responsible Supply Chain Management	
	Occupational Health and Safety	
	Talent Attraction, Retention & Development	
	Commercial Ethics and Antitrust	

NetDragon firmly believes that high priority must be given to topics that can have a profound impact on our corporate value. This year, through monitoring industry trends, regulatory updates and investor expectations, and based on the results of stakeholder engagement, we identified "Respect for Intellectual Property Rights", "Data Security and Privacy Protection", "Product and Services Safety and Quality", "Innovation Management", "Corporate Governance" and "Anti-bribery and Anti-corruption" as "Material Topic". The significance of these topics reflects their impact on our ESG aspects. We aim to integrate these topics into our day-to-day operations and manage them through our policies and risk management framework.

NetDragon places equal emphasis on General Topics and Moderate Topics. Considering the impact of these topics on our corporate value, we aim to address them through formulating appropriate policies, setting ESG targets, and risk management to ensure that we meet the code of business conduct and ethics across all aspects. This is our commitment to our stakeholders and our investment in the future.

4. USER RIGHTS PROTECTION

4.1 Cyber Security

As a global leader in building internet communities, NetDragon is well aware of the importance of cyber security to the Group and our stakeholders. We strictly comply with laws and regulations on information security in jurisdictions where we operate, including but not limited to the *Standard Contract for the Outbound Cross-border Transfer of Personal Information* and the *Procedures for Administrative Law Enforcement by the Cyberspace Administration Departments*. We have established a top-down cyber security management framework to ensure that every aspect, from policy development to day-to-day operations, is under strict oversight.

To enable robust cyber security governance, we have clearly defined roles and responsibilities within the team and established efficient reporting mechanisms to ensure agile decision making and precise management. In addition, we continually improve our internal cyber security policies and processes to ensure that our business complies with the law. We view cyber security as a core element of risk management, protecting our operations from any potential threats. This comprehensive security strategy provides a solid foundation for a safe and reliable cyber environment for our customers, employees and partners. Through these strategies and actions, we have consolidated our cyber security leadership and set the stage for continued growth and innovation.

4.1.1 Governance

NetDragon's commitment to information security is evidenced by our comprehensive and rigorous governance measures. In addition to having organisation-wide *Cyber Security Management Measures* in place, the Group's senior management is actively involved in overseeing cyber security matters, ensuring the strict implementation of each policy. To strengthen this commitment, we have established a Safety and Compliance Committee, formed by senior management, demonstrating the utmost importance we place on cyber security.

In addition, we have established an Information Security Department composed of professionals, which is directly led by the Vice President of NetDragon. This Department is responsible for the Group's information and cyber security affairs. It undergoes regular internal and external audits and assessments to ensure that our security measures remain at the forefront of the industry. At NetDragon, decisions regarding cyber security are made and implemented collectively by these professional departments, ensuring that we can respond quickly and effectively to any security challenges and provide a secure cyber environment for our customers, employees, and partners.

From developing rigorous guidelines for cyber security and personal privacy protection to addressing regulatory requirements, we conduct sound data classification and security assessments, demonstrating NetDragon's steadfast commitment to user data protection. The Company not only conducted security testing of internal systems, but also paid special attention to five key areas: protection of personal privacy on mobile Apps, information security for users, real-name registration, content security, and anti-addiction system of games.

In addition, NetDragon actively seeks the opinions of external experts to improve our cyber security performance. In 2023, the Company was awarded the "Second Prize in Cyber Attack/Defence Exercise" by the Fuzhou Municipal Cyberspace and Information Security Centre, as a concrete recognition of our cyber security efforts.

Looking ahead, NetDragon will continue to closely monitor the latest developments in the field of cyber security, introduce advanced solutions, and continuously improve and strengthen our information security system to ensure maximum protection of user data security and privacy.

4.1.2Independent Assessment and Certifications

NetDragon's Information Security team is committed to ensuring the protection of data by implementing well-defined management policies and regularly conducting comprehensive security audits of the Company's information systems, business systems and IT infrastructure. In terms of external audits, the local Communications Authority where we operate also conducts strict reviews of these security measures to ensure that NetDragon implements high-standard management in information security.

The China based gaming and education businesses of the Group have all obtained the State National Information Security Protection Level 3 Certification, which is the most authoritative information security certification scheme in China, and have qualified for reassessment during the Reporting Period. This reflects NetDragon's firm commitment to following national information security regulations and technical standards, as well as our continuous efforts to assess and enhance information system security levels.

Notably, our subsidiary Fujian Province Huayu Education Technology Co. Ltd. ("Fujian Huayu") has obtained the internationally recognised ISO27001 Certification, further underlining NetDragon's global leadership in information security.

4.1.3Cyber Security along the Value Chain

NetDragon views information security as a critical standard in the selection of suppliers and partners. Besides meeting the strict requirements of the State National Information Security Protection Level 3 Certification itself, the Group requires the security qualifications of cloud service providers and other relevant suppliers to have the same capability, if not a higher level of Certification, in their security qualifications.

4.1.4Cyber Resilience Commercialisation

NetDragon not only focuses on cybersecurity in our daily operations, but also integrates this concept into the design of our products and services. The Company is committed to delivering sustainable designs that translate cyber resilience into commercial value. By undertaking outsourced cyber security attacks and defence drills, NetDragon has improved its capacity to assist corporate clients in safe operations.

4.1.5Cybersecurity Training and Education

In 2023, we continued our focus on compliance training in terms of data and information security at the Group level. The detailed program and progress include:

1. The Group provides various safety and compliance training to employees. These include mandatory safety and compliance training for new employees, special safety and compliance training for core business personnel, and voluntary information security series certification. In 2023, NetDragon provided information security training to 750 people. The total number of training hours was 1091.72 hours, averaging 1.55 hours training hours per person;

2. *Common Vulnerabilities and Prevention Methods* training introduced preventive methods against common types of vulnerabilities encountered in our business;

3. Network Intrusion Emergency Response training is prepared for employees with emergency procedures for addressing various types of network intrusion;

4. All new employees received the "New Employee Information Security Awareness Training" course to gain basic information security knowledge, security awareness and understanding of their responsibilities.

4.2 Privacy and Data Protection

4.2.1 Privacy and Data Security Principle, Commitments and Approach

As the world's leading operator of online communities, we oversee a vast database of personal information. In this data-intensive era, we recognise the importance of protecting this information and enforce strict data protection measures in all facets of our business. Our guiding principle is to retain user's personal information for the shortest period permitted by law to minimise any potential privacy risks. Specifically, as required by applicable laws and regulations, we formulated the *NetDragon Game Privacy Policy* to ensure compliance and to protect the privacy of our users. NetDragon adopts the contents of *Information Security Technology Personal Information Security Specifications (GB/T 35273-2020)* as the framework to form our organisation-wide information security management system, and has formulated the following principles, commitments, and approach:

❍ Data Collection Phase:

- Principle of Legality: No deception, no misleading, no concealing, no data collected from any illegal channels;
- Principle of Minimum Necessity: Only collect the data directly related to the implementation of products or services;
- Principle of Autonomy: Set isolated application scenarios and provide unbundled services, allowing for user's autonomy;
- Principle of Authorised Consent: Fully inform users about the intent, method, and range of the data collection before their authorisation, and no data collection without user authorisation.

❍ Data Storage and Transmission Phase:

- Shortest Time Principle: The storage period is the minimum time required to achieve the purpose of processing;
- De-Identification Management: Apply de-identification after the data collection, store the data separately and strengthen access and usage control;
- Encryption Measures: Apply national encryption standard during data storage and transmission.

- Data Access and Application Phase:

- Principle of Access Control: Implement minimum access control strategy, internal supervision and approval process for data revision and download;

- Principle of Purpose Limitation: Data application must comply with the purpose stated during the collection phase, any applications beyond the stated purpose need separate authorisation;

- Principle of Publicity Restrictions: Utilize de-identification technology to exclude sensitive information in the presentation of personal data to protect privacy and security.

4.2.2Scope of Privacy and Data Protection Policies

Protecting the security and privacy of personal data is a top priority in our operations. The Group develops and continuously updates a comprehensive series of privacy policies that apply to all of its controlled companies to ensure the protection of user data on a global scale.

4.2.3Personal Data Consents, Rights and Control

NetDragon provides users with the right to control their personal information, including but not limited to the right to access, update, delete and withdraw the authorisation. We provide an intuitive interface that allows users to easily update or modify their personal information, such as phone numbers, in the designated application. In addition, when users choose to cancel their accounts, we ensure that their personal information is automatically and securely removed from the system to protect their privacy.

4.2.4Cross-border Data Management

In order to protect our users' privacy and personal data, NetDragon complies with all applicable laws and regulations on the cross-border transmission where we operate. If there is a need to transport personal information across borders, NetDragon will separately and independently obtain the user's authorised consent to specify the purpose, type and recipient of the outbound transmission of personal information. The Group also implemented efficient business structures and used the technical infrastructures of the Group to ensure segregated management of onshore and offshore personal data.

4.2.5Privacy and Data Engagement and Certification

The Group provides in-depth privacy and data security training to all employees, especially those involved in handling personal information. Prioritising "data minimisation" and "privacy by design", one of our major overseas subsidiaries integrates these principles into its products and services to minimise the processing of personal data. At the same time, the subsidiary has deployed advanced software scanning tools to detect vulnerabilities in code, ensuring that issues are identified promptly to provide secure products and services.

A service offered by the overseas subsidiary has been certified by iKeepSafe (Internet Safety Alliance©). This confirms that the oversea's subsidiary's service strictly complies with certain U.S. state and federal regulations on the handling of sensitive personal information.

4.2.6Third-party Data Management

The Group does not rent, sell, or provide personal data to third parties other than for the following purposes: to complete a merger, acquisition, asset transfer or similar transaction with user consent; to perform specific services with user consent; when inquired by local jurisdictions and regulatory department to be compliant with the relevant requirements of laws and regulations.

4.2.7Data Breach/Incident Response Plan

The Group has introduced a series of innovative technologies and measures to minimise the risk of data breaches. In addition to developing a comprehensive data security management strategy and contingency plan, we have also established a robust incident response mechanism to ensure a rapid and effective response to information security incidents.

In the event of an information security incident, our Information Security department will take immediate action and assign professional staff to perform an incident analysis. We will collect evidence at the scene of the incident, thoroughly understand the cause and handling of the incident, and conduct a rigorous assessment of its impact. Our aim is to ensure the effectiveness of response measures, to learn from the incident, to make recommendations for improvement and to prevent similar incidents from happening again. In addition, our Information Security department regularly reviews and updates information security policies and procedures to strengthen our information security defence mechanism and continuously improve our information security management level.

We regularly conduct comprehensive assessments of our computer systems and make necessary platform upgrades to ensure that our technology remains at the forefront of the industry. Ongoing network vulnerability assessments and penetration testing enable us to identify and address potential security threats in a timely manner. All of our critical IT infrastructure and systems are equipped with advanced monitoring systems that accurately generate and analyse logs and immediately issue alerts when suspicious network activity or attempted attacks are detected. During the Reporting Period, the Group reported no substantial data leaks in our business operations.

4.3 Protection on Minors

In this era of digital gaming, NetDragon serves not only as a platform for exciting gaming experiences but also as a socially responsible custodian. We are committed to protecting minors from the potential hazards of online gaming. In compliance with the National Administration of Press and Publication's *Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addictions among Minors*, the Group implements real-name registration across all of our self-operated games in Mainland China (such as Eudemons, Conquer, and Heroes Evolved). Minors are required to ensure that they have the consent of their guardians to use our services, and their data will be strictly protected. If we find out that we have collected data without a guardian's consent, we will suspend the service to minors and delete the data as soon as possible to protect the physical and mental well-being of minors, reduce their risk of gaming addiction, and help them develop healthy gaming behaviour.

In accordance with the requirements of the China Audio-video and Digital Publishing Association, age-appropriate reminders are added to the game download, registration and login interfaces of the games, and similar age-appropriate reminders are placed throughout all promotional materials. Meanwhile, we launched an online parental supervision platform to help parents prevent minors from using online services excessively and to provide all-channel and seamless support. Gamer refund issues are handled by a dedicated process team in accordance with relevant regulations and industry best practices.

4.4 Intellectual Property Protection

Intellectual property ("IP") is a critical strategic asset for the Group. Excellence in IP management serves not only as a powerful driver of our core competitiveness, but also as a key factor in stimulating innovation and development. We are constantly striving to nurture and expand our flagship IPs to provide players with a unique gaming experience. To this end, the Group has collaborated with well-known IPs both domestically and internationally, and is honoured to be an IP partner of prestigious brands such as Universal Pictures and Lego. We have ensured the highest level of protection and respect for these valuable IPs in various domains by implementing a series of innovative mechanisms.

On our intranet, accessible to all employees, each IP related to our offerings is presented as individual modules with details such as official name, applicable jurisdiction, trademark and category, associated samples, etc. More importantly, each dominant IP has its dedicated user manual, articulating practical business scenarios, IP resource protection-related regulations, basic user specifications, applications case studies, etc. This not only raises employee awareness of IP, but also effectively guides employees to use IP in a correct and compliant manner in their daily work, thereby reducing the risks associated with IP misuse or abuse.

At the same time, the Group holds the IP of others in high regard and continues to promote the use of genuine software. In game development and other creative processes, we strictly adhere to IP laws and never infringe upon the IPs of others.

4.5 Customer Engagement

We value our customers' feedback and reviews of our products and services. We always listen attentively to the voice of each customer and regard their feedback as the key to improving the quality of our products and services. To this end, we monitor and respond to customer feedback and enquiries relating predominantly to our products and services. Over the past seven fiscal years, the Group has received an average of less than 0.03% of customer complaints.

2017-2023 Operation Contacts into Support and Complaints Received within the Group

Year	Consolidated Gaming Contacts into Support	Complaints Received	% Complaints
2017	1,908,693	211	0.011%
2018	1,756,206	396	0.023%
2019	1,685,030	335	0.020%
2020	1,837,044	607	0.033%
2021	1,510,396	541	0.036%
2022	1,478,111	461	0.031%
2023	1,240,726	633	0.051%

NetDragon listens and takes every customer's opinion and feedback seriously. Each complaint is handled on a case-by-case basis by studying the feedback from our customer satisfaction surveys. The Technical Support team is responsible for recording the feedback, forwarding it to the relevant personnel for processing, and contacting the customer to resolve the complaint when it is completed.

5. ENVIRONMENTAL PROTECTION

The Group primarily operates in the fields of gaming and education technology, resulting in comparatively minimal environmental impacts when compared to traditional manufacturing industries that directly emit greenhouse gases and produce waste. Nonetheless, we never neglect our responsibility for environmental protection. We perceive environmental protection as a hard core of corporate social responsibility and are dedicated to minimising our negative impact on nature through sustainable business practices. Since October 2022, the *Quality and Environmental Management System* ("QEMS") has been implemented in our overseas UK education business segment in line with ISO 14001 and ISO 9001 standards. Additionally, our subsidiary Fujian Huayu obtained the certification of ISO 14001 environmental management system in 2022, recognising our endeavours in environmental protection.

In response to the challenges posed by global climate change, such as rising sea levels, extreme weather events, and temperature shifts, we recognise the significant impact these changes may have on our assets, business operations, and all stakeholders. Accordingly, we have developed a robust set of internal management policies to mitigate these risks and established a monitoring system to track the progress and results of their implementation. Our aim is clear: to protect both the environment and our business from the adverse effects of climate change while contributing to a greener and more sustainable future.

5.1 Climate Change

Climate change poses a grave and pressing challenge to both social and business sustainability. In light of this, the Group has diligently identified and evaluated the risks posed by climate change, strictly adhering to government-issued guidelines on extreme weather, and carrying out measures to safeguard our employees' safety. Concurrently, we have devised emergency protocols, contingency plans for extreme weather events, and corresponding strategies to mitigate potential damages from future disastrous events.

The Group regularly reviews and tracks the implementation and progress of our climate change policies to ensure effective execution. Additionally, we are continuously exploring innovative approaches to better protect the environment, whether by promoting renewable energy or instituting new resource recycling initiatives, to set a benchmark for environmental stewardship within our industry and pioneer the path toward greener development.

In addition to our ongoing commitment to prioritise climate change issues, our group aligns with the goal of "Climate Action" outlined in the United Nations' Sustainable Development Goals ("SDGs"). We pledge to progressively adopt the Task Force on Climate-Related Financial Disclosures ("TCFD") framework by early 2024, disclosing the Group's risk management system and initiatives on climate change, setting up and meticulously tracking progress on climate change-related metrics and targets.

5.2 Energy Management and Carbon Emissions

NetDragon has significantly reduced its environmental impact through innovative technologies and recycling initiatives. We have not only decreased emissions of harmful pollutants and Greenhouse Gas ("GHG") but also rigorously controlled pollution to water and land, effectively managing the generation of various types of waste.

By carrying out a series of energy-saving measures, we have notably reduced both direct and indirect energy consumption. To mitigate emissions from goods transportation, we are actively promoting innovative road transport methods and have established three new transportation hubs for delivery in the US to enhance our goods transport efficiency. Additionally, we incentivise employees with green travel policies, stimulating them to choose more environmentally friendly modes of transportation.

Our day-to-day office operations are centred around energy conservation, efficient resource utilisation, waste recycling, and environmental protection. We have issued the *Computer Misuse Summary* and the *Air Conditioning Management Measures* to regulate daily office operations and reduce energy consumption. Moreover, we promote the concepts of "reduce, reuse and recycle," encouraging employees to further save energy and resources through methods such as achieving a paperless office, recycling all office supplies and equipment, using LED lighting and installing sensors.

In recent years, NetDragon has demonstrated unprecedented determination and innovative spirit in leading our headquarters and Smart Education Town towards a future powered by 100% clean energy. Simultaneously, we are deeply committed to advancing the green transition across the entire industry chain, striving to minimise the use of non-renewable energy at every stage from source to end. Our goal is to continually enhance energy efficiency, ensuring that we remain at the forefront of energy use, even surpassing evolving advanced standards.

5.3 Indoor Air Quality and Healthy Workplace

We are fully aware of the profound impact of indoor air quality on the physical and mental health of our employees. Hence, we are actively enhancing our work environment to ensure it remains fresh and free from pollution, thereby providing a secure and healthful workplace to our staff. This commitment not only underscores our dedication to employee welfare but also aligns with the vision of "Healthy Workplace, Sustainable Growth" as advocated by HR Excellence Center.

For four consecutive years, we have proudly received the Diamond Level China Healthy Workplace Certification from a distinguished Chinese human resources consulting firm, the HR Excellence Center. This certification, developed by experts from esteemed institutions and organisations including Fudan University, Huawei, Medtronic, Volkswagen, and Bayer, is a comprehensive design, covering aspects such as corporate support, health environment and management, management implementation, and occupational safety and health. This certification serves as an external validation of our efforts in fostering a healthy workplace environment.

5.4 Water Consumption and Conservation

In our daily operations, water resources are primarily used for office cleaning and restroom facilities. Despite our operational locations not being situated in water-stressed areas, we deeply value every drop of water. Therefore, we have internally established stringent water resource management policies and guidelines to act on water conservation strategies comprehensively.

From overall management to operational levels, we meticulously monitor and adjust water conservation strategies to ensure their effective implementation. Regular inspections of water facilities are conducted to preempt any form of leakage, and real-time data monitoring is employed to promptly identify and address any abnormal situations of water consumption.

We not only enhance employee awareness of water conservation through posters and promotional materials within the office but also encourage employees to practice water-saving behaviours in their daily lives. Our goal extends beyond merely reducing water usage, but fostering a collective culture of water conservation, where every employee becomes an integral part of the water-saving initiative.

5.5 Waste Management

All NetDragon's business units are making joint efforts to reduce the generation of waste and reliance on landfills, thereby easing the burden on our environment. To achieve this, we have established comprehensive guidelines for the collection, recycling, and disposal of all types of waste in alignment with local regulations. Moreover, our waste management strategy is regularly updated to adapt to evolving regulatory frameworks.

At our offices, we promote a centralised material recycling program aimed at minimising waste generation and fostering resource circularity. From plastics and paper to cardboard and metals, as well as batteries and food waste, our recycling facilities handle a broad spectrum of materials. Specialised recycling bins and stations have been set up in various corners of the office building, accompanied by clear guidelines, to ensure that every employee can easily sort and dispose of waste. All recyclable materials are directed to local recycling centres or charitable organisations for proper processing and reuse. For hazardous waste, we partner with specialised and professional collection agencies to ensure the safe recycling and disposal of items such as fluorescent lights and batteries.

The Group complies strictly with local legislation in its overseas education business segment, including the *New Jersey Electronic Waste Management Act* and the *New York State Electronic Equipment Recycling and Reuse Act,* and has carried out a "Mail-back" program across the US, which is aimed to facilitate clients' convenient recycling of unwanted or damaged products or parts. The initiative allows customers to return items to us free of charge, following detailed instructions, and these items are then responsibly processed and recycled by us. This not only helps reduce electronic waste but also ensures the proper management of old equipment, empowering customers to contribute to environmental sustainability.

6. PEOPLE

NetDragon's success is attributed to the steadfast contributions of all employees. We highly value every talent that joins us and strive to provide them with an ideal work environment that harmonises physical and mental well-being, productivity, and team spirit.

6.1 Diversity, Inclusion and Equal Opportunities

We stay committed to upholding fair, just, and open recruitment principles, ensuring equal opportunities for all job seekers regardless of age, ethnicity, race, family status, ethnic background, colour, gender, sexual orientation, religious beliefs, social background, nationality, disabilities, pregnancy, or any other biases prohibited by law. We embrace values of diversity, equality, and inclusion, with "Zero Discrimination" at the core of our corporate culture.

6.1.1 Policies and Key Initiatives

Our dedication extends beyond creating a Discrimination-Free workplace where every employee can actively contribute their talents and achieve their potential. We also focus on recruiting, attracting, nurturing, and promoting the most exceptional individuals to drive our core competitiveness.

To achieve this goal, the Group has established Employee Inclusion Groups ("EIGs") and developed a diversity, equality & inclusion strategy aimed at fostering exchanges and collaboration among diverse groups while respecting and recognising every employee's individuality and contributions. Under this strategy, the management will regularly engage in intersectional discussions with EIGs to enhance solicitude and support for 4 different groups, namely, Gender, Ethnicity, LGBTQ+, and Disability in talent recruitment, attraction, and recognition. Furthermore, the Group strictly adheres to Anti-Harassment policies, ensuring a safe, friendly, and inclusive work environment for all employees.

The Group implements a series of management policies that promote employees' work-life balance, including:

1. **Fairness in Talent Attraction and Retention:** equally treats all employees during recruitment, promotion, reviews of professional and technical tenures, and training.

2. **Beyond Statutory Holidays:** provides statutory maternity inspection leave, maternity leave, and breastfeeding leave for female employees.

3. **New Working Mode:** builds up Metaverse's new office mode to help employees better balance work and family relationships and accelerates the pace of creating a Metaverse organisation where "everyone participates in co-creation, and everyone shares value". We continue to promote the "efficiency-centered" ideology and transform it into a new working mode, allowing employees to choose a more efficient working mode based on their working preferences for better work-life balance.

4. **Multicultural, Friendly and Humanised Workplace:** we fully respect each employee's individuality by creating a mutually respectful, healthy, free-from-prejudice and harassment-free working environment. Through employee satisfaction surveys, "BUG collection cabin", and listening to employees' feedback, we are dedicated to solving employee demands through various forms and channels.

5. **Health of Everyone:** we arrange annual physical examinations for employees and provide warm, comfortable, and private spaces for female employees during pregnancy and breastfeeding periods.

6.1.2Diversity Training

The Group fully recognises the importance of diversity, anti-discrimination, no-bias, and anti-harassment principles in building a harmonious, efficient, and innovative workforce. These principles are integral to our employee training programs. To ensure that every employee understands and practices these principles and ideas, we offer tailored courses targeting specific issues to raise awareness among employees and guide their behaviours at certain subsidiaries where these issues are vital to the local communities, promoting a diverse and inclusive work environment. These courses cover:

Anti-Harassment: This course starts by elaborating on the negative impact of discrimination and harassment in the workplace, helping employees understand that such discriminatory and harassing behaviour not only lowers morale and productivity but may also violate the law. Additionally, this course provides examples and case analysis outlining the types of behaviour that may lead to discrimination and harassment (including sexual harassment) and teaches employees how to identify and avoid such behaviour. Last but not least, the course explores the ways to create a mutually respectful work environment and introduces employees to relevant provisions of federal anti-discrimination and anti-harassment laws.

Unconscious Bias: This course explains to employees the definition of unbiasedness and unconscious bias, and emphasises the significance of employees possessing awareness against bias. Starting from the origins of bias, the course assists employees in taking various measures to overcome their unconscious biases, teaching them how to examine and change their biased thoughts and behaviours. Finally, the course presents employees specific strategies adopted by the company to combat unconscious bias.

6.1.3Management Oversight

One of our major overseas subsidiaries hosts periodic "Curious Conversations", inviting all employees to express their views and expectations regarding the work environment and culture to management executives. These exchanges provide an opportunity for management to explain and respond to queries about the Diversity, Equality, and Inclusion strategy. This not only facilitates mutual trust and understanding between management and employees but also promotes collaboration and communication among EIGs.

6.1.4 Staff Overview

As of 31 December 2023, the Group had a total of 5,389[1] employees, with 91% of full-time employees. Of these, 88% were based in the PRC and Hong Kong SAR, with the remaining 12% based overseas. Moreover, full-time male and female employees accounted for 62% and 38% of the total workforce respectively. Employees aged 31 to 50 represented 59% of the overall headcount, while those under 30 and over 50 accounted for 37% and 4%, respectively.

6.1.5 Prohibition of Child Labour and Forced Labour

We strictly adhere to laws and regulations such as the *Law of the People's Republic of China on the Protection of Minors* and *Provisions on Prohibition of Child Labour* to protect the legitimate rights and interests of minors and oppose any form of child labour. To prevent incidents of employing child labour, we require new employees to provide authentic and valid identification documents for verification upon entry. Those providing false materials or documents will not be hired and will be dealt with according to legal requirements and our internal regulations.

Simultaneously, we prohibit forced labour, respect employees' free will, and encourage employees to reasonably arrange their work and rest time following relevant regulations. In addition, one of our major overseas subsidiaries has publicly released and implemented the *Human Rights Policy and the Slavery and Human Trafficking Statement,* clearly defining equality and rights for every employee. During the Reporting Period, the Group did not encounter any incidents of employing child labour or forced labour.

6.1.6 Staff Communication

We are well aware that communication with our employees serves as essential drivers of corporate development and a key elements of employees' personal growth. Therefore, we remain firm in respecting employees' opinions and suggestions and strive to create an equal, harmonious, smooth, and transparent communication environment. To guarantee employees' rights, we have established a dedicated internal audit department responsible for monitoring and following up on the handling of BUGs and suggestions.

1 Only some subsidiaries of the Group are included.

Furthermore, we provide a wide range of channels for employees to submit complaints anonymously/half-publicly/publicly according to their wishes and needs. Our BUG Collection Cabin is a convenient and quick complaint channel where employees can directly report their problems. We have also enacted the *Internal Audit Management* to standardise the overall process and requirements of employee complaints and established incentive measures to inspire all employees to participate actively. The regulations specify the handling department, process, method, and feedback deadline to deal with employee complaints, ensuring they are resolved fairly, effectively, and promptly.

Channels for complaints:

- Intranet BUG Collection Cabin and 99U-Application-Office Management-BUG Collection Cabin: applicable to all types of complaints;
- Senior management commendation/complaint collection cabin: applicable to complaints against management positions, project leaders, and other personnel at levels 7 and above;
- Email: neishen@nd.com.cn

During the Reporting Period, the Group conducted satisfaction surveys for new hires and employee activities. The results were analysed with a view to improving the onboarding process and experience for new hires and optimising the organisation of employee activities. In order to improve the onboarding experience of new hires in a timely manner, we continuously conduct satisfaction surveys during the onboarding period and provide quarterly survey reports to the relevant departments for analysis and improvement. For our employees, we conduct satisfaction surveys after each activity and analyse the results of the surveys for continuous improvement with the aim of persistently enhancing the quality of benefits.

6.2 Talent Attraction and Retention

Talents are our foundation for achieving sustainable growth over the long run. In the global competitive landscape, recruiting and retaining the best talent worldwide injects powerful momentum and vitality into our group. To that end, we strive to implement the most optimal model of human capital management ("HCM") that emphasises being transparent, open-minded, and proactive. We aspire to evolve into an organisation that has no boundaries, is knowledge-intensive, and empowers its members. NetDragon's HCM concept emphasises flexible employment, fairness, transparency, knowledge sharing, and the application of AI technology. We pioneer flexible work modes tailored to the modern era, attracting global talent through remote work opportunities and flexible working hours.

We extend a spectrum of Employee Value Propositions ("EVP") to our colleagues, including competitive remuneration, performance incentives, comprehensive welfare initiatives supporting employees and their families, and personalised career development plans for individuals and teams. Simultaneously, we place significant emphasis on talent management training, fostering an environment where employees feel valued and supported, thereby igniting their passion and creativity in the workplace.

Our objectives are to:

- Attract, motivate and retain exceptional talent
- Demonstrate target-driven remuneration that links our unique platform to the organisation and diverse individual employees' purpose to drive overall results, talent retention and engagement
- Align individual goals and compensation with Shareholders' interests

6.2.1 Variable Compensation Schemes

With operational excellence at its core, our plan is driven by value and supported by flexible reward mechanisms. In addition to basic salary, we have comprehensive statutory benefits (including basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance, maternity insurance, and housing provident fund) and a diversified incentive system (short-term incentives, long-term incentives, personalised benefits) as follows:

1. **Short-term Incentives:** According to different positions and performance, short-term incentives include performance bonuses, project bonuses, sales commission bonuses, special post allowances, special skills allowances, special duties allowances, project milestone awards, project completion bonuses, innovation incentive bonuses, annual bonuses, part-time subsidies, etc.

2. **Long-term Incentives:** include merit points, akin to stock options, which are granted to employees who have made long-term value contributions to the company and rewarded when the project achieves a breakthrough.

3. **Other Benefits:** we develop themed benefits and point-collecting initiatives such as gamified star ratings, flexible welfare funds, lottery activities, point auctions, departmental team building, birthday cakes/gifts, various parent-child activities, festival activities, etc.

Furthermore, we consistently refine our compensation policies based on market benchmarks and performance evaluations, safeguarding employees' basic rights and facilitating mutual development and win-win cooperation between the company and our staff. Through regular performance reviews and assessments, we work to provide timely and comprehensive feedback and guidance to employees within our performance management framework.

For more details about our performance management system, please visit:

https://ir.nd.com.cn/sc/human-resource-management-sc

6.2.2Engaging with Talents

NetDragon remains steadfast in our focus on attracting and nurturing elite talent, continually bringing in high-caliber professionals. Each year, the company conducts annual recruitment planning and forecasts for talent acquisition needs. During the Reporting Period, we introduced a new recruitment management system, enabling flexible, high-adaptive, and precise recruitment to meet our requirements for evolving talent development.

Throughout the Reporting Period, our efforts in social and campus recruitment yielded notable results: We hired 593 professionals through social recruitment. Moreover, 24,388 fresh graduates from home and abroad participated in our campus recruitment activities, and 115 outstanding new graduates were hired. Concurrently, we actively responded to calls for employment stability by establishing robust partnerships with many educational institutions and positively participating in employment and education initiatives organised by the Ministry of Education. These collaborative efforts spanned industries, education, scientific research, and innovation.

Our consistent recognition by talents has garnered us prestigious accolades, such as the "2023 China Excellent HCM Model Enterprise Award", "2023 Best Companies to Work for," "Best Employer Award", "Extraordinary Employer," and "Top Human Resources Management Awards".

6.3 Talent Development

NetDragon acknowledges that learning and development are the cornerstone of the mutual growth of employees and the company. Therefore, we invest substantial resources and effort in cultivating a high-quality learning and development environment for our employees. We provide all kinds of tools and resources to ensure that all employees have opportunities for learning, growth, and career development. Additionally, we offer guidance and support from management to assist employees in overcoming challenges they may encounter in their work.

The Group provides a combined online and offline training platform for our internal employees, which plays a pivotal role in supporting and empowering our entire organisation. Through knowledge accumulation and best practice refinement, we aim to enhance NetDragon's overall professional capabilities supplemented by diverse learning methods and products. This, in turn, facilitates the career development and talent advancement of our employees. Since 2007, the platform has continually expanded the training content and capabilities, offering over 14 subjects/topics for employee selection by the end of the Reporting Period.

As emerging technologies such as AI, 3D, big data, and blockchain continue to evolve, we actively develop and refine relevant training and skills advancement programs within our existing training system. The effort is aimed at identifying and seizing new opportunities, enhancing the professional capabilities of our employees, and simultaneously supporting their personal growth while aligning with the company's strategic development objectives. In addition, we promote online learning, offering a "Weekly Lessons" training program to meet the learning needs of our organisation's development. Furthermore, we leverage AI technology to explore the metaverse, achieving business process automation and structuring through the help of an AI virtual executive named "Tang Yu", thus ensuring efficient and transparent organisational operations.

In 2023, a total of 1,122 participants engaged in the offline training programs, with a total of 34,135.95 teaching hours, averaging 30.42 hours per person. On our eLearning online learning platform, 3,716 employees participated in thematic course learning, with a total teaching duration of 270,431 hours, averaging 72.77 hours per person.

We have in place a complete career development, key position qualification, and a dual-track (managerial and professional) promotion system. Our promotion philosophy is highly centred around the quality of work, without regard to the traditional career boundaries of tenure and ranking. The philosophy ensures that all rules, standards, and processes towards promotion are clearly defined and maximises equity. Moreover, such an approach enables us to identify qualified and excellent employees timely based on their valuable contributions, and thus offer them more opportunities or higher positions within the company. In this regard, all employees are recognised by earning what they deserve.

The company also encourage innovation and the pursuit of excellence by rewarding innovative talent. We hold annual events to give out all kinds of innovation awards, honouring around 20 outstanding employees every year, and many more are incentivised monthly (we have paid "innovation" bonuses to 1,144 staff accumulated since 2021), fostering a conducive atmosphere for innovation. Further, to drive design-driven innovation, we hold our '99 Design Oscar' event annually to reward top creative designs, offering various awards to recognise and encourage employees with rich creativity.

6.3.1Routine Training Programs

New Staff Training: By the end of the Reporting Period, we carried out new staff training camps for a total of 493 new recruits, with a cumulative study time of 3,944 hours, averaging 8 hours per person. Training content spans corporate culture, relevant norms and regulations, as well as our company's philosophies.

Skills Training: During the Reporting Period, we enhanced employees' professional capabilities through "All-Staff Training," offering courses in new technologies such as Unreal and AIGC, as well as specialised courses in fields such as education, animation performance, Flutter development qualifications, and Web 3D, aiding employees in professional skill enhancement and career development.

Leadership and Management Training: We conducted training in management learning areas to identify potential management talents. By combining actual job problems faced by management positions with research, online micro-course pre-learning, and offline workshops, we help management positions improve their management abilities, facilitating continuous upgrades in company management.

6.3.2Certification Projects

We have made significant investments and developed courses with relevant certifications and internal certifications evaluated by external experts. In addition to internal certifications, we encourage employees to participate in external learning certifications to stay updated with the latest technologies and knowledge, aligning with industry standards and trends. For example, the company reimburses expenses for students applying for U3D certification (Unity's game design and development certification), enabling them to learn and use cutting-edge game development tools and platforms.

We also encourage metaverse work mode. After employees obtain training certification, they can undertake insourced tasks while completing their work, receiving more compensation and achieving a win-win result for both the company and employees.

1. **Business Certification:** Since 2020, NetDragon has adhered to the "task-centred" management philosophy. To this end, we have established a comprehensive certificate-holding and promotion system aimed at improving employees' qualities and competence. Based on the requirements of different positions, we designed corresponding business certification exams, requiring employees to pass the exam to obtain qualifications for the relevant positions. Additionally, we encourage our employees to continuously strive for advancement and position promotion, and we not only assess employees' performance and cultural values but also require employees to pass business certification for new positions.

2. **Specialised Training Certification:** Through all-staff training, we achieved competency building for various positions within the company. During the Reporting Period, we provided specialised training in Unreal, Flutter development qualifications, etc., allowing employees to acquire relevant knowledge and skills and to obtain related certifications and certificates, proving their professional abilities and qualifications. These certificates are conducive not only to employees' personal career development but also to the company's brand image and market reputation.

6.3.3E-Learning Training and Learning Platform Construction

We encourage and act on lifelong learning and carry out all-staff training for this purpose. On one hand, we remain firm in leveraging technologies for empowerment and continuously improve the online learning training platform by digitising excellent practices. On the other hand, we constantly introduce a series of courses on new technology such as AI, inspiring employees to participate in training and learning to enhance core skills and work output.

During the Reporting Period, our learning platform added a total of 437 uploaded courses. The total number of employees participating in e-learning was 3,716, with a total study time of 270,431 hours, averaging 72.77 hours per person.

6.4 Occupational Health & Safety

NetDragon attaches great importance to the overall health and well-being of our employees. We consistently promote healthy working habits, balanced lifestyle, and encourage regular exercise. To this end, we provide comprehensive indoor and outdoor sports facilities, and offer internal coaching to cultivate a culture of staying fit and healthy, mitigating health and safety risks for employees.

Additionally, we are committed to adhering to global standards for managing the Group's occupational health and safety issues, while also adapting to local laws and regulations in our operational regions. To ensure compliance, we have rolled out occupational health and safety policies aimed at creating secure and reassuring working conditions for every employee. Our efforts have also been recognised internationally, with Fujian Huayu receiving ISO 45001 certification for its occupational health and safety management systems in 2022. Notably, over the past four years, there have been no significant work-related health and safety incidents or fatalities within our organisation.

Legal Compliance Identification

- We diligently identify and adhere to all applicable laws and regulations relevant to our operations, implementing appropriate control measures to ensure compliance.

Establish a Top-down Occupational Health and Safety Management System

- Executive management oversees the implementation of our occupational health and safety policies, ensuring that they are effectively enforced throughout the organisation. Our managers will take proactive steps to address any health concerns raised by team members.

Identification and Management of Occupational Health and Safety Risks

- Through regular assessments of occupational health and safety risks, we conduct internal inspections of all production activities and locations to identify and eliminate hazards, thereby creating a safe working environment. Additionally, we develop emergency action plans to address any unforeseen circumstances.

Continuous Improvement

- We set goals and performance indicators to drive continuous improvement in our occupational health and safety management practices and reduce such risks for employees. Regular progress assessments help us refine our approach and further enhance health and safety management across the Group.

Provision of Appropriate Occupational Health and Safety Training

- We ensure that our employees receive comprehensive training relevant to their roles, equipping them with the necessary information, skills, and supervision to perform their duties safely.

6.4.1 Safety

To ensure a safe working environment, security personnel are on duty 24 hours a day to comprehensively monitor all working venues and conduct rigorous patrols and inspections.

To improve our rescue and employees' safety awareness and self-rescue skills, we have established fire services systems and hired a professional fire services team, and we conduct regular training sessions on fire safety annually, including drills on fire and evacuation, rescue drills for lift-trapped victims, and explosion prevention drills.

For employee operational safety, we have also developed safety standards and rules for practices and operations in various job positions, accompanied by a comprehensive training program.

6.4.2 Health

Human capital is of paramount value to the Group. We prioritise the well-being of our workforce and continue to promote practical and fun initiatives to encourage a healthy and balanced lifestyle for our employees.

The following are the four key areas we focus on:

- Health Initiatives

  Our healthy work environment, healthy food standard, sporting events, and fun festival activities all encourage employees to live healthy life. NetDragon Games (i.e. Sports Day), 1/4 Marathon, and SEAL Challenge are among the annual events.

- Health Check

  We provide employees with regular health surveys/assessments, annual body checks, and health report interpretation, which help us better understand our employees' overall health status and individual needs. We also formulate policies to better protect employee's health data and privacy.

- Health Education

  Our global headquarters offers a wide range of in-house sports facilities, sports training sessions, medical courses, health lessons and consultations to our employees. Moreover, there are many internal communication channels for health and well-being, including our intranet, office automation, internal messaging, Enterprise Resource Planning pop-up notices, NetDragon Radio, etc., as well as on-campus posters, and display monitor screens.

- Illness Prevention

  Our global headquarters is equipped with clinics and health management rooms, where treatment is available at any time and expert doctors are invited periodically to provide in-depth consultations. Medical insurance packages are provided to all domestic employees. Furthermore, we also strictly adhere to epidemic control measures in all of our facilities.

7. VALUE CHAIN

7.1 Innovation Management

At NetDragon, we regard innovation management as a top priority, investing over 1.1 billion RMB annually in developing cutting-edge technologies and products, and hiring over 3,000 experienced and creative R&D personnel worldwide. We continuously drive innovation by encouraging employees to propose new ideas and solutions, providing them with sufficient support and resources. In addition to in-house R&D efforts on our own IPs, we actively engage in strategic partnerships with other global leading brands to work on the development of next-generation educational products.

Furthermore, we foster internal collaboration and innovation through dedicated awards and recognition. Each year, we honour outstanding team members with the Technology Innovation Award and Design Innovation Award, inspiring a culture of innovation and excellence in our workforce.

7.2 Responsible Supply Chain Management

In 2023, the Group had a total of 44 major suppliers. The geographical split of these suppliers is as follows:

Indicators	2023	2022	2021	2020	2019	2018	2017	2016
Number of Major Suppliers[2]	44	29	23	22	21	23	17	15
By region:								
Asian Countries (Excluding Mainland China and Hong Kong SAR)	15	3	1	3	3	2	2	4
Australia	0	0	0	0	0	0	0	0
The United Kingdom ("the UK")	0	1	1	0	1	2	0	0
US	17	14	8	7	8	11	5	1
Mainland China	3	4	5	6	7	6	7	5
United Arab Emirates ("UAE")	0	0	0	1	0	0	0	0
Hong Kong SAR	4	4	5	2	2	1	1	4
European Countries(excluding the UK)	5	3	3	3	0	1	2	1

In order to comprehensively regulate the Group's purchasing and bidding process, ensure smooth production and operation, and enhance supply chain management performance, the group has established a comprehensive supply chain management system and conducted evaluations of suppliers' environmental and social performance.

During the Reporting Period, we formulated and updated the *Purchasing Management System 2023 and Tendering and Purchasing Management System 2023*. These systems require comprehensive assessments of suppliers during the purchasing process, ensuring compliance with licensing and qualification requirements, and developing suppliers based on the "QCDS" principle, focusing on quality, cost, delivery, and service. We also strictly adhere to tendering and purchasing disciplines, maintaining openness, fairness, justice, and honesty throughout the process and enforcing regulations at every stage. Should we detect bidder's any negative environmental or social impacts, or instances of deception, fraud, overpricing, underpricing, or malicious bidding, we will eject the bid and involve legal intervention.

2 The Group's major suppliers refers to suppliers of products/services whose total contract sum amounted to USD 1 million or more in any given year.

During the Reporting Period, the Group did not experience any significant actual or potential negative impacts from major suppliers regarding business ethics, environmental protection, human rights, or labour practices. Additionally, to the best of our knowledge, employees were not involved in any non-compliant events that violated human rights.

7.3 Quality Management

The Group stays committed to excellent quality management, establishing and implementing a comprehensive internal policy and procedures framework for information security management applying to all Group business lines, in line with the framework outlined in the *Information Security Technology – Personal Information Security Specification* (GB/T 35273-2020) issued by the Chinese government in March 2020.

The following policies and procedures are included:

- Well-rounded preventive measures covering the entire cycle of data collection, transmission, storage, and usage stages
- Clear definition of data ownership rights
- Complaint collection mechanism and response procedures
- Data leakage reporting mechanism
- Data protection impact assessment
- Strengthened organisational measures for information security management
- Regular communication and cooperation with regulatory authorities

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

- We generate and send out daily journals on quality, demonstrating the quality and progress of the latest version of the products on a multidimensional scale, and coordinate timely problem-solving efforts to avoid and control risks wherever possible and ensure the progress of the production.

- We perform a variety of specialised tests on product performance, compatibility, network and security, and other aspects to ensure product quality, employing a 24/7 automated testing-based cloud service on our in-house developed tailored testing platform.

- We strictly implement quality control processes and standards, including product requirement reviews, test plan management, test rule management, test execution management, risk feedback management, and bug data management.

- We have established a quality control system based on online uptime checks, and implement regular testing/auto-triggered testing for timely defect detection during production and real-time monitoring of product quality.

- Under the requirements of relevant laws and regulations, we have developed standards and guidelines for security test in relation to five areas, namely personal privacy protection on Apps, information security for users, real-name registration, content security and anti-addiction system of games. Moreover, leveraging the self-developed security scanner and its exclusive online quality monitoring technology, we provide timely product conformity reports to ensure that our products comply with laws and regulations.

7.3.1 Health, Safety Quality and Certification

As an ISO 14001 certified entity, one of our major overseas subsidiaries undergoes an annual surveillance audit and recertification audit every 3 years. The audits cover 4 aspects – reducing environmental impact, complying with legislation, improving efficiency to reduce operating costs, and gaining a competitive advantage in tendering processes.

7.3.2Product Recalls & Regulatory Violation

As of the Reporting Period, there were no product recalls related to health and safety or any major product failure incidents. In the event of product or service failures, the Group will promptly provide warranty services to customers, analyze and address failure problems, and offer customers satisfactory solutions under warranty policies. Additionally, there were no instances of regulatory violations regarding products and services during the Reporting Period.

7.3.3Quality Assurance

We endeavour to establish a product and service environment that is high-quality, reliable, cost-effective, and on-time to ensure customer satisfaction and trust in our brand. For this purpose, we integrate quality assurance principles into every phase of our suppliers' and partners' new product releases and product lifecycle processes. Moreover, we promote a culture of continuous improvement within the Group, enhancing our quality management system and ensuring compliance with ISO 9001 quality management system and other relevant standards.

Our products undergo a series of rigorous tests, including functional testing, performance testing in weak network environments, security testing, multi-platform compatibility testing, system integration testing, and user interface ("UI") testing, to ensure outstanding performance under various dynamics. We harness advanced automated detection technology to minimise the impact of human errors on product quality, which not only enhances testing efficiency but also increases our confidence in product quality. Additionally, we have established a comprehensive quality analysis mechanism to analyse the root causes of BUGs and prevent potential problems occurred in the future.

We believe that ongoing collaboration with leading enterprises and academic institutions enables us to continually explore and implement new technological approaches. This open environment for technology exchanges not only facilitates our progress in innovation but also ensures us a leading edge in product quality.

8. COMMUNITY INVESTMENTS

NetDragon not only stands out as a leading gaming and education technology company but also upholds a strong commitment to social responsibility. Domestically, we actively align with the national strategies of precise poverty alleviation and rural revitalisation, fostering long-term partnerships with various local government entities. Our aim is to increase learning opportunities and create better learning environments for primary and secondary school students in impoverished and underdeveloped regions through measures promoting educational equity. To achieve this, we provide well-rounded tailored solutions to these schools, including upgrading educational technology equipment, offering high-quality teaching resources and services, and training and supporting local teachers. Through these efforts, we hope to advance the level and quality of education and lay solid foundations for student's future development.

Internationally, NetDragon is one of the few leading global companies that is actively engaged in emerging market countries such as Egypt, Ghana, and Thailand, with a vision of leveraging our advanced technology and extensive experience to provide high-quality education to local primary and secondary school students. We strive to ensure equal, high-quality, and inclusive education for all children. In pursuit of this vision, we formed a strategic partnership with the United Nations Educational, Scientific and Cultural Organisation ("UNESCO") in August 2020 to jointly promote global education equality and SDGs.

Moreover, one of our major overseas subsidiaries encourages employees to give back to their communities by providing up to two days of paid leave for such activities. Many employees actively seize this opportunity to contribute to their communities. Additionally, it also actively supported the "Anguilla Initiative" – a community project aimed at improving local education and resources in Anguilla. This project helped to raise locals' awareness of education while providing them with educational opportunities, thus creating a better future for local residents.

During the Reporting Period, the Group actively contributed to the community and invested 4.512 million RMB in community development.

On 7 March, 2023, NetDragon held a training programme at the Confucius Institute at Cairo University, guiding Chinese language teachers in Egypt to better utilise distance learning methods through online meetings. During the training, Mr. Li, Dean of the Confucius Institute, encouraged the teachers there to use NetDragon's Chinese AI courseware, which facilitates a complete closed-loop process before, during, and after class. This marks a new chapter in the Group's steps into the Egyptian market. Since 2022, NetDragon has served 12 Egyptian public schools, benefiting over 800 Egyptian secondary school students, receiving widespread acclaim and recognition. In the future, we will continue to expand our market coverage and promote Chinese AI interactive courseware to more countries in the world.

On 1 July, 2023, Dr. Liu Dejian, Chairman of the Group, attended the 23rd meeting of the UNESCO Institute for Information Technologies in Education (UNESCO IITE) Council, proposing several development suggestions. He proposed creating virtual digital humanoid avatars, writing guidelines for AI technology, co-building a "Teaching Method Repository/ Education Encyclopedia," and providing lesson planning tools. It is believed that virtual avatars can transcend national boundaries to convey information and showcase the forward-looking image of UNESCO IITE. Participants at the meeting also considered virtual humanoid avatars innovative and capable of attracting young people. In the future, NetDragon will continue to support educational reform and help accelerate the global digitalisation of education.

In September 2023, the Publicity Department of the Fujian Provincial Committee of the Communist Party of China (CPC) launched China's first-ever national defence education metaverse learning platform. This interactive digital platform, developed with NetDragon's assistance, integrates numerous learning functions, aiming to innovatively create a more interesting and enriching national defence education and learning experience.

In October 2023, NetDragon's flagship IP "Eudemons Online" launched a new game character named "Elegance of Falling Geese • Zhaojun", inspired by the image of Wang Zhaojun, one of the Four Beauties of ancient China. We collaborated with young pipa artist Liu Qingyao to create the theme song "Elegance of Falling Geese" for this character and incorporated trendy dance in China, to promote traditional Chinese culture. Additionally, Pocket Eudemons Online uses CAVE (Cave Automatic Virtual Environment) immersive technology to create a Han Dynasty cultural space, showcasing Han philosophy, engraved scriptures, and so forth, to enhance cultural awareness among players. Warmly welcomed by the audiences, its influence and popularity has reached millions, demonstrating NetDragon's determination and social responsibility in promoting traditional Chinese culture.

In December 2023, the 4th Buddhist Forum of Exchange between Theravada and Mahayana: Sino-Thai Buddhist Friendship took place at Mahachulalongkornrajavidyalaya University (MCU) in Thailand. The forum was preceded by a donation ceremony for the Religious AI smart speaker developed by NetDragon. At the ceremony, the President and the Vice President of the MCU accepted the donation and prayed for the audience, further reinforcing Sino-Thai Buddhist cultural exchanges. This also marks a new milestone in the Sino-Thai Buddhist digital intelligence exchange.

In December 2023, with the support of the Education Department and the Digital Education Museum of Hunan Province, Huayu Education donated LEGO Education FLL science and technology kits to the Fifth Primary School of Longshan County to support the grassroots activities of "Focusing on Digital Transformation to Support Rural Education," promoting the digital transformation of rural education in Hunan Province.

As a company that highly values social responsibility, NetDragon remains dedicated to community investment and social donations, contributing our love for giving back to society. We firmly believe that it is our responsibility to support community education, resources, and social development. We remain steadfast in our commitment to community investment and social development, and will strive towards a better and more equal society.

9. MAJOR RECOGNITION, AWARDS AND MEMBERSHIP

In 2023, NetDragon garnered a series of prestigious awards, showcasing remarkable achievements in ESG endeavours. With regard to corporate governance, upholding the principles of ethical conduct and nurturing a culture of integrity, we have fortified our internal governance mechanism to ensure robust and sound development. With regard to corporate social responsibility, we embrace a people-oriented approach and a philosophy of harmonious coexistence, actively participating in charity and public welfare activities and committing to environmental protection, steadfast in the national belief that "lucid waters and lush mountains are invaluable assets", safeguarding natural resources. Moreover, with regard to social contribution, our ongoing efforts not only drive social progress but also inject positive energy into society, which has earned us accolades such as "Top 100 Enterprises" and "Innovative Enterprise."

No.	Award Issuer	Name of the Award
1	S&P Global	"Sustainability Yearbook" (China Edition)
2	People's Daily Online	2022-2023 Outstanding Enterprise on Social Responsibility Performance in the Chinese Gaming Industry 2022-2023 Outstanding Enterprise on Comprehensive Social Responsibility Performance in the Chinese Gaming Industry
3	China Information Technology Industry Federation (CITIF)	2023 Top 100 Competitive Enterprises in Software and Information Technology Services
4	Gamma Data	China's Top 15 Competitive Listed Game Companies
5	Frost & Sullivan and TradeGo (Shenzhen) Cloud Technology Co., Ltd.	Most Resilient Profit-Making Listed Company
6	Zhitong Finance Online and Zhejiang Hexin Tonghuashun Network Information Co., Ltd	2023 Golden Hong Kong Stock
7	VBrokers	2023 Award for Company with Best Investor Relations
8	Tsinghua x-lab	2022 Outstanding School-Enterprise Cooperation Organisation of Tsinghua x-lab
9	Changle District Committee of the CPC, The People's Government of Changle District, Fuzhou City	2022 Outstanding Contribution Award of Changle District
10	Changle District Committee of the CPC, The People's Government of Changle District, Fuzhou	Key Enterprise for Cultivation

No.	Award Issuer	Name of the Award
11	Fujian Federation of Commerce & Industry	2023 Fujian's Top 100 Innovative Private Enterprises (Ranked 9th)
12	Fujian Federation of Commerce & Industry	2023 Fujian's Top 100 Private Enterprises in Service Industry (Ranked 19th)
13	Fujian Federation of Commerce & Industry	2023 Fujian's Top 100 Private Enterprises (Ranked 58th)
14	Fujian Provincial Cultural Reform and Development Leading Group	2023 Fujian's Top 10 Cultural Enterprises
15	Internet Society of Fujian	2023 Fujian Top 50 Internet Enterprises with Comprehensive Competitiveness
16	Fujian Provincial Digital Fujian Construction Leading Group Office	2023 Fujian Innovative Enterprises of Core Industries of Digital Economy
17	People's Government of Changle District, Fuzhou	Benevolent Enterprise Care for Yuanzhou and Support Fujian-Ningxia Cooperation
18	Gold Finger Award Jury	2023 China's Outstanding Enterprise in Game Industry
19	Fujian Enterprises and Entrepreneurs Confederation	Deputy Chairman of the Ninth Council of Fujian Enterprises and Entrepreneurs Confederation
20	Fujian Software Industry Association Xiamen Software Industry Association	2022 Fujian's Top 50 Software & IT Services Industry Enterprises with Comprehensive Competitiveness
21	Fujian Provincial Cultural Reform and Development Leading Group	2023 Fuzhou Top 10 Cultural Enterprises
22	People's Government of Changle District, Fuzhou	Benevolent Enterprise Care for Yuanzhou and Support Fujian-Ningxia Cooperation
23	Fujian Enterprises and Entrepreneurs Confederation, Fujian Media Group, Fujian Academy of Social Science	2023 Fujian's Top 100 Enterprises in Service Industry

No.	Award Issuer	Name of the Award
24	Fujian Enterprises and Entrepreneurs Confederation, Fujian Media Group, Fujian Academy of Social Science	2023 Fujian's Top 100 Strategic Enterprises in Emerging Industry
25	China Enterprise Confederation, China Enterprise Directors Association	2023 China's Top 500 Enterprise
26	Publicity Department of Fujian Provincial Committee of the CPC	Furui Dragon, an IP Image of Dragon representing blessing and felicity was recognised as the "Fu" Cultural Zodiac IP Image for the Year of the Dragon 2024 in Fujian Province
27	Tech and Learning	"Tech & Learning Awards of Excellence"
28	Tech and Learning	"Tech & Learning ISTE Best of Show Award"
29	Edtech Digest	"EdTech Awards Cool Tool"
30	EdTech Breakthrough	EdTech Breakthrough "Student Engagement Innovator of the Year" Award
31	Red Dot	"Red Dot Design Award"
32	iF Design	"iF Design Award"
33	The Edvocate	Tech Edvocate Award "Best Classroom Audio-Visual App or Tool"
34	HR Excellence Centre	2023 CHW Healthy Workplace Certification
35	Liepin	Extraordinary Employer
36	Beisen	2023 China Excellent HCM Model Enterprise Award
37	Shixiseng Online	2023 Favorite Employer Award
38	51Job	Excellent HCM Award
39	HRTech China	Popular Employer Award

10. PERFORMANCE DATA SUMMARY

Environmental Performance

2023 Environmental Performance

Emissions	**2023**	2022	**Unit**
Air Pollutants[3]			
Nitrogen Oxides (NO_x)	**11.86**	Not Available	kg
Sulphur Oxides (SO_x)	**0.38**		kg
Particulate Matter 2.5 (PM2.5)	**0.81**		kg
Particulate Matter 10 (PM10)	**0.84**		kg
Carbon Monoxide (CO)	**169.49**		kg
Greenhouse Gas			
Scope 1[4]	**58.36**	Not Available	tCO_2e
Scope 2[5]	**11,919.49**	38.90	tCO_2e
Scope 3[6]	**259.25**	Not Available	tCO_2e
Total	**11,977.85**	Not Applicable	tCO_2e

3 The emissions of atmospheric pollutants originate from the exhaust emissions of vehicles owned and controlled by the Group within the scope of the Report. The emission calculation methods refer to the *Technical Guide for Compilation of Emission Inventory for Air Pollutants from Road Motor Vehicles (Trial)* and the *Guidelines for Accounting and Reporting Greenhouse Gas Emissions from Enterprises of Other Industries (Trial)* published by the Ministry of Ecology and Environment of the PRC, as well as the *Fleet Weighted Road Transport Emission Factor 2021* provided by the Department for Environment, Food and Rural Affairs (DEFRA) of UK.

4 The calculation method for emissions of greenhouse gases (Scope 1) from vehicles refers to the Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Land Transportation Enterprises (Trial) published by the Ministry of Ecology and Environment of the PRC, and the Greenhouse gas reporting: conversion factors 2023 provided by the Department for Business, Energy & Industrial Strategy and the Department for Energy Security of UK.

5 The calculation method for greenhouse gases emissions (Scope 2) from purchased electricity refers to the national grid average emission factors in the Notice on the Management of GHG Emissions Reporting for Power Generation Sector from 2023 to 2025 issued by the Ministry of Ecology and Environment of the PRC, as well as the Greenhouse gas reporting: conversion factors 2023 provided by the Department for Business, Energy & Industrial Strategy and the Department for Environment, Food & Rural Affairs of UK.

6 The calculation method for greenhouse gases emissions (Scope 3) from travel and residential water supply refers to the "ICAO Carbon Emissions Calculator" uploaded by the International Civil Aviation Organization Organisation (ICAO), the Set of Greenhouse Gas Emission Coefficients for the Whole Life Cycle of Chinese Products (2022) published by the Carbon Peak and Carbon Neutrality Research Centre of the Chinese Academy of Environmental Planning, as well as the Greenhouse gas reporting: conversion factors 2023 provided by the Department for Business, Energy & Industrial Strategy and the Department for Environment, Food & Rural Affairs of UK.

Emissions	2023	2022	Unit
Emission Intensity	2.44	Not Applicable	tCO_2e/person
Waste[7]			
Hazardous Waste[8]	8.00	Not Available	t
Intensity	1.63		kg/person
Non-Hazardous Waste (Office, Domestic Waste)	13.50		t
Intensity	2.75		kg/person

Resource Consumption	2023	2022	Unit
Energy			
Office or Domestic Electricity Consumption	21,019.45	Not Available	MWh
Intensity	4.28		MWh/person
Petrol	25,217.61		Litre
Intensity	5.14		Litres/person
Diesel	79.50		Litre
Intensity	0.02		Litre/person
Total Energy Consumption[9]	21,245.74	202.32	MWh
Intensity	4.33	Not Applicable	MWh/person
Water Resource			
Office or Domestic Water Consumption	29,998.00	359.00[10]	t
Intensity	6.11	Not Applicable	t/person

7 Considering that the majority of our revenue comes from our games and education technology business, the waste generated from our operations is not significant. The current disclosure scope only includes some but not all subsidiaries of the Group. We are expanding our data collection scope to include more data from all subsidiaries in the future.

8 Hazardous waste from 3D printers, discarded electronics, batteries, aerosols, fluorescent lamps, and liquid cleaning waste.

9 The calculation method for total energy consumption refers to the Guidelines for Accounting Methods and Reporting of Greenhouse Gas Emissions of Chinese Power Generation Enterprises (Trial) issued by the National Development and Reform Commission of the PRC.

10 Only some subsidiaries of the Group are included.

Social Performance

KPI B1.1 Total workforce by gender, employment type, age group and geographical region for the year

	2023 Number of Staff[11]	2023 % of total	2022 Number of Staff	2022 % of total	2021 Number of Staff	2021 % of total
Total Workforce	5,389	/	4,751	/	4,834	/
Total workforce by employment type						
Full time	4,907	91.1%	4,460	93.9%	4,689	97.0%
Part time	482	8.9%	291	6.1%	145	3.0%
Full-time workforce by gender						
Male	3,043	62.0%	2,835	63.6%	2,907	62.0%
Female	1,864	38.0%	1,625	36.4%	1,782	38.0%
Full-time workforce by age group						
30 or below	1,833	37.4%	1,686	37.8%	2,063	44.0%
31-50	2,884	58.8%	2,584	57.9%	2,251	48.0%
51 or above	190	3.9%	190	4.3%	375	8.0%
Full-time workforce by employment category						
General staff and Supervisor	3,844	78.3%	3,630	81.4%	3,817	81.4%
Middle management	751	15.3%	622	13.9%	653	13.9%
Senior management	312	6.4%	208	4.7%	219	4.7%
Full-time workforce by geographic region						
Hong Kong SAR	25	0.5%	20	0.4%	22	0.5%
Mainland China	4,307	87.8%	3,767	84.5%	4,151	88.5%
Other Regions	575	11.7%	673	15.1%	516	11.0%
Other data						
Total minority ethnic employee	78	1.45%	Not Available			
Total new employee	677	12.56%				
Female employee in management	190	/				
Female employee in new recruits	240	35.45%				
Female employee in senior management	45	/				

11 The number of staff covers the majority of employees at the headquarters of NetDragon Websoft Holdings Limited and its main subsidiaries. In the future, NetDragon will enhance employee information collection and disclose more comprehensive employee data.

KPI B1.2 Employee turnover rate by gender, age group and geographical region for the year

	2023 Turnover Rate[12]	2022 Turnover Rate	2021 Turnover Rate
Full time employee turnover	**13.5%**	15%	39%
Employee turnover by gender			
Male	**13.9%**	16%	22%
Female	**12.7%**	8%	69%
Employee turnover by age groups			
Below 30	**14.1%**	9%	38%
31-50	**13.2%**	54%	44%
51 or above	**10.5%**	14%	10%
Employee turnover by geographic region			
Hong Kong SAR	**16.0%**	25%	7%
Mainland China	**13.7%**	16%	42%
Other Regions	**11.5%**	15%	21%

KPI B2.1 Number and rate of work-related fatalities occurred in each of the past three years including the reporting period
KPI B2.2 Lost days due to work injury

Occupational Health and Safety	**2023**	2022	2021
Work-related fatalities	**0**	0	0
Lost day due to work injury[13]	**49**	0	0

12 The employee turnover rate is calculated by: (the number of employees who left during the reporting period)/(the total number of employees in that category by the end of the reporting period) X 100%.

13 Calculated based on an "8-hour workday" as one working day.

EMPLOYEE TRAINING

KPI B3.1 The percentage of employees trained by gender and employee category

KPI B3.2 The average training hours completed per employee by gender and employee category

The number of employees trained	2023	% of employees trained[14]
The number of full-time employees trained	4,306	100%
The number of employees trained by gender		
Male	2,782	64.6%
Female	1,524	35.4%
The number of employees trained by employee category		
General staff and Supervisor	3,295	76.5%
Middle management	719	16.7%
Senior management	292	6.8%

Training hours completed by employees	2023 Training Hours
Total training hours full-time employees completed	271,906
Average training hours full-time employees completed[15]	63.15
Training hours completed of employees by gender	
Male	236,965
Female	34,942
Training hours completed of employees by employee category	
General staff and Supervisor	206,313
Middle management	60,897
Senior management	4,697

Note: During the Reporting Period, the Group dispatched specific personnel responsible for the employee training data. We will continue to strengthen internal data collection and improve data disclosure in future reports.

14 The percentage of employee training is calculated by: (the number of trained employees in certain category)/(the total number of employees in that category) X 100%.

15 The average training hours is calculated by: (the total training hours completed by the employees in that category)/(the total number of employees in that category) X 100%.

11. CONTENT INDEX OF THE ESG GUIDE OF SEHK

Mandatory Disclosure Requirements		**Section**
Governance Structure	A statement from the Board containing the following elements: (i) disclosure of the Board's oversight of ESG issues; (ii) the Board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-elated issues (including risks to the issuer's businesses); and (iii) how the Board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.	2. SUSTAINABILITY GOVERNANCE 2.1 Board Independence, Diversity and Performance 3. STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT
Reporting Principles	A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG Report:	1. ABOUT THIS REPORT
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG Report and describing the process used to identify which entities or operations are included in the ESG Report. If there is a change in the scope, the issuer should explain the difference and reason for the change.	1. ABOUT THIS REPORT

General Disclosures and KPIs		Disclose Section/Explanation
A. Environment		
A1. Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	5. ENVIRONMENTAL PROTECTION
A1.1	The types of emissions and respective emissions data.	10. PERFORMANCE DATA SUMMARY – Environmental Performance
A1.2	Direct (Scope 1)and energy direct(Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	10. PERFORMANCE DATA SUMMARY – Environmental Performance
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	10. PERFORMANCE DATA SUMMARY – Environmental Performance
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	10. PERFORMANCE DATA SUMMARY – Environmental Performance
A1.5	Description of emission target(s) and steps taken to achieve them.	5.1 Climate Change 5.2 Energy Management and Carbon Emissions
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction target(s) and steps taken to achieve them.	5.5 Waste Management

A2. Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	5.2 Energy Management and Carbon Emissions 5.4 Water Consumption and Conservation
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	10. PERFORMANCE DATA SUMMARY – Environmental Performance
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	10. PERFORMANCE DATA SUMMARY – Environmental Performance
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	5.2 Energy Management and Carbon Emissions
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) and steps taken to achieve them.	5.4 Water Consumption and Conservation
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	*Due to the nature of the business, the Group is not involved in the consumption of finished packages.*
A3. The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	5.2 Energy Management and Carbon Emissions 5.5 Waste Management
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	5. ENVIRONMENTAL PROTECTION 5.2 Energy Management and Carbon Emissions

A4. Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact the issuer.	5. ENVIRONMENTAL PROTECTION 5.1 Climate Change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	5. ENVIRONMENTAL PROTECTION 5.1 Climate Change
B. Social		
B1. Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	6. PEOPLE 6.1 Diversity, Inclusion and Equal Opportunities 6.2 Talent Attraction and Retention
B1.1	Total workforce by gender, employment type(for example, full- or part-time), age group and geographical region.	10. PERFORMANCE DATA SUMMARY – Social Performance
B1.2	Employee turnover rate by gender, age group and geographical region.	10. PERFORMANCE DATA SUMMARY – Social Performance

B2. Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	6.4 Occupational Health & Safety
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	10. PERFORMANCE DATA SUMMARY – Social Performance
B2.2	Lost days due to work injury.	10. PERFORMANCE DATA SUMMARY – Social Performance
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	6.4 Occupational Health & Safety
B3. Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	6.3 Talent Development
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	10. PERFORMANCE DATA SUMMARY – Social Performance
B3.2	The average training hours completed per employee by gender and employee category.	10. PERFORMANCE DATA SUMMARY – Social Performance

B4. Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	6.1 Diversity, Inclusion and Equal Opportunities
B4.1	Description of measures to review employment practices to avoid child and forced labour.	6.1 Diversity, Inclusion and Equal Opportunities
B4.2	Description of steps taken to eliminate such practices when discovered.	6.1 Diversity, Inclusion and Equal Opportunities
B5. Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	4.1 Cyber Security 7. VALUE CHAIN
B5.1	Number of suppliers by geographical region.	7.2 Responsible Supply Chain Management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	2.2 Business Ethics and Compliance 4.1 Cyber Security 7.2 Responsible Supply Chain Management
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	2.2 Business Ethics and Compliance 4.1 Cyber Security 7.2 Responsible Supply Chain Management
B5.4	Description of practices used to promotes environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	7.2 Responsible Supply Chain Management

B6. Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4.1 Cyber Security 7. VALUE CHAIN
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	7.3 Quality Management
B6.2	Number of products and service related complaints received and how they are dealt with.	4.5 Customer Engagement 7.3 Quality Management
B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.4 Intellectual Property Protection
B6.4	Description of quality assurance process and recall procedures.	7. VALUE CHAIN 7.3 Quality Management
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	4.2 Privacy and Data Protection

B7. Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	2. SUSTAINABILITY GOVERNANCE 2.2 Business Ethics and Compliance
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	2.2 Business Ethics and Compliance
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	2.2 Business Ethics and Compliance
B7.3	Description of anti-corruption training provided to directors and staff.	2.2 Business Ethics and Compliance
B8. Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	8. COMMUNITY INVESTMENTS
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	8. COMMUNITY INVESTMENTS
B8.2	Resources contributed (e.g. money or time) to the focus area.	8. COMMUNITY INVESTMENTS

Deloitte. 德勤

TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 149 to 288, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from online and mobile games	
We identified the recognition of revenue from online and mobile games as a key audit matter due to financial significance of revenue to the consolidated financial statements. Online and mobile games revenue of approximately RMB3,759 million for the year ended 31 December 2023 was recognised after the actual usage of the game points in the online and mobile games by the customers for obtaining virtual products or premium features. Advance received in respect of unutilised game points and those arising from inactivated prepaid game cards is recognised as contract liabilities.	Our procedures in relation to the recognition of revenue from online and mobile games included: • evaluating and testing the manual and automated controls over the revenue recognition process in respect of online and mobile games revenue; • obtaining the full-year top-up information and reconcile with bank statements, on a sample basis; • obtaining calculation of online and mobile games revenue and performing recalculation of the revenue with reference to game points utilised by customers during the year using computer-assisted audit techniques; • obtaining summary report which contains the utilised and unutilised game points generated by the computer system and performing testing, on a sample basis, by computer-assisted audit techniques; • performing substantive analytical procedures on the online and mobile games revenue and contract liabilities with reference to utilised game points and unutilised game points by customers, on a sample basis, during the year; and • Testing the automatic control of player account registration process using computer assisted audit techniques for overseas online and mobile games revenue.

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Chung Chi Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 RMB million	2022 RMB million
Revenue	5	**7,101**	7,866
Cost of revenue		**(2,703)**	(3,551)
Gross profit		**4,398**	4,315
Other income and gains	6(a)	**264**	223
Impairment loss under expected credit loss model, net of reversal	8	**(3)**	(14)
Selling and marketing expenses		**(807)**	(945)
Administrative expenses		**(1,199)**	(975)
Research and development costs		**(1,382)**	(1,224)
Other expenses and losses	6(b)	**(446)**	(213)
Share of results of associates and joint ventures		**(4)**	(17)
Operating profit		**821**	1,150
Exchange loss on financial assets at fair value through profit or loss, convertible and exchangeable bonds, convertible note and derivative financial instruments		**(21)**	(73)
Fair value change on financial assets at fair value through profit or loss		**75**	(33)
Fair value change on derivative financial instruments		**28**	15
Finance costs	7	**(268)**	(219)
Profit before taxation		**635**	840
Taxation	9	**(188)**	(76)
Profit for the year	10	**447**	764
Other comprehensive income (expense) for the year, net of income tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**43**	47
Item that will not be reclassified to profit or loss:			
Fair value change on equity instruments at fair value through other comprehensive income		**(22)**	(2)
Other comprehensive income for the year		**21**	45
Total comprehensive income for the year		**468**	809

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTE	2023 RMB million	2022 RMB million
Profit (loss) for the year attributable to:			
– Owners of the Company		**550**	834
– Non-controlling interests		**(103)**	(70)
		447	764
Total comprehensive income (expense) for the year attributable to:			
– Owners of the Company		**570**	879
– Non-controlling interests		**(102)**	(70)
		468	809
		RMB cents	RMB cents
Earnings per share	13		
– Basic		**103.00**	154.15
– Diluted		**103.00**	154.14

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	**2023 RMB million**	2022 RMB million
Non-current assets			
Property, plant and equipment	14	**2,422**	1,936
Right-of-use assets	15	**380**	380
Investment properties	16	**60**	59
Goodwill	17	**325**	287
Intangible assets	18	**868**	739
Interests in associates and joint ventures		**43**	34
Equity instruments at fair value through other comprehensive income	20	**45**	56
Financial assets at fair value through profit or loss	21	**453**	404
Loan receivables	22	**12**	8
Other receivables, prepayments and deposits	27	**351**	94
Deferred tax assets	23	**433**	347
		5,392	4,344
Current assets			
Properties under development	24	**70**	343
Properties for sale	24	**280**	303
Inventories	25	**405**	807
Financial assets at fair value through profit or loss	21	**38**	84
Loan receivables	22	**79**	4
Trade receivables	26	**702**	654
Other receivables, prepayments and deposits	27	**485**	549
Amounts due from joint ventures		**7**	5
Tax recoverable		**39**	29
Pledged bank deposits	28	**315**	1
Bank deposits with original maturity over three months	28	**329**	207
Cash and cash equivalents	28	**2,241**	3,701
		4,990	6,687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 RMB million	2022 RMB million
Current liabilities			
Trade and other payables	29	**1,518**	1,513
Contract liabilities	30	**491**	406
Lease liabilities	31	**76**	67
Provisions	32	**127**	94
Derivative financial instruments	21	**107**	31
Bank borrowings	33	**1,033**	737
Convertible and exchangeable bonds	34	**3**	16
Convertible note	35	**1**	–
Tax payable		**80**	100
		3,436	2,964
Net current assets		**1,554**	3,723
Total assets less current liabilities		**6,946**	8,067
Non-current liabilities			
Other payables	29	**37**	19
Lease liabilities	31	**45**	50
Bank borrowings	33	**1**	2
Convertible and exchangeable bonds	34	**253**	1,317
Convertible note	35	**356**	–
Convertible preferred shares	36	**–**	–
Deferred tax liabilities	23	**80**	80
		772	1,468
Net assets		**6,174**	6,599

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTE	2023 RMB million	2022 RMB million
Capital and reserves			
Share capital	37	**39**	40
Share premium and reserves		**5,856**	6,859
Equity attributable to owners of the Company		**5,895**	6,899
Non-controlling interests		**279**	(300)
		6,174	6,599

The consolidated financial statements on pages 149 to 288 were approved and authorised for issue by the Board of Directors on 27 March 2024 and are signed on its behalf by:

Liu Dejian
DIRECTOR

Leung Lim Kin, Simon
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Attributable to owners of the Company															
	Share capital RMB million	Share premium RMB million	Capital redemption reserve RMB million (Note a)	Other reserve RMB million (Note b)	Capital reserve RMB million (Note c)	Statutory reserves RMB million (Note d)	Dividend reserve RMB million	Property revaluation reserve RMB million	Treasury share reserve RMB million (Note e)	Employee share-based compensation reserve RMB million	Translation reserve RMB million	Equity instruments at fair value through other comprehensive income reserve RMB million	Retained profits RMB million	Sub-total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2022	40	1,986	8	(148)	10	525	811	22	(13)	51	(139)	(5)	4,167	7,315	(240)	7,075
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	834	834	(70)	764
Other comprehensive income (expense) for the year	-	-	-	-	-	-	-	-	-	-	47	(2)	-	45	-	45
Total comprehensive income (expense) for the year	-	-	-	-	-	-	-	-	-	-	47	(2)	834	879	(70)	809
Repurchase and cancellation of shares	-	(68)	-	-	-	-	-	-	-	-	-	-	-	(68)	-	(68)
Contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12	12
Recognition of equity-settled share-based payments, net of awarded shares and share options forfeited	-	-	-	-	-	-	-	-	-	6	-	-	-	6	-	6
Awarded shares vested to employees	-	-	-	-	-	-	-	-	4	(4)	-	-	-	-	-	-
Acquisition of additional equity interests from non-controlling shareholders	-	-	-	(8)	-	-	-	-	-	-	-	-	-	(8)	(2)	(10)
Final dividend for 2021 paid	-	-	-	-	-	-	(179)	-	-	-	-	-	2	(177)	-	(177)
Interim dividend for 2022 declared and paid	-	-	-	-	-	-	-	-	-	-	-	-	(185)	(185)	-	(185)
Special interim dividend for 2022 and 2021 declared and paid	-	-	-	-	-	-	(632)	-	-	-	-	-	(231)	(863)	-	(863)
Final dividend for 2022 proposed	-	-	-	-	-	-	193	-	-	-	-	-	(193)	-	-	-
Transfers	-	-	-	-	-	153	-	-	-	-	-	-	(153)	-	-	-
At 31 December 2022	40	1,918	8	(156)	10	678	193	22	(9)	53	(92)	(7)	4,241	6,899	(300)	6,599
At 1 January 2023	**40**	**1,918**	**8**	**(156)**	**10**	**678**	**193**	**22**	**(9)**	**53**	**(92)**	**(7)**	**4,241**	**6,899**	**(300)**	**6,599**
Profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**550**	**550**	**(103)**	**447**
Other comprehensive income (expense) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41**	**(21)**	**-**	**20**	**1**	**21**
Total comprehensive income (expense) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41**	**(21)**	**550**	**570**	**(102)**	**468**
Repurchase and cancellation of shares	**(1)**	**(133)**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(134)**	**-**	**(134)**
Shares issued upon exercise of share options	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**5**	**-**	**5**
Acquisition of subsidiaries	**-**	**-**	**-**	**132**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(738)**	**(606)**	**681**	**75**
Contribution from non-controlling interests of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Transfer to a non-controlling interest upon deregistration of a non-wholly owned subsidiary	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**(1)**
Recognition of equity-settled share-based payments, net of share options forfeited	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**101**	**-**	**-**	**3**	**104**	**-**	**104**
Awarded shares vested to employees	**-**	**-**	**-**	**96**	**-**	**-**	**-**	**-**	**6**	**(101)**	**-**	**-**	**(1)**	**-**	**-**	**-**
Final dividend for 2022 paid	**-**	**-**	**-**	**-**	**-**	**-**	**(193)**	**-**	**-**	**-**	**-**	**-**	**2**	**(191)**	**-**	**(191)**
Interim dividend for 2023 declared and paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(196)**	**(196)**	**-**	**(196)**
Special interim dividend for 2023 declared and paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(490)**	**(490)**	**-**	**(490)**
Second special interim dividend for 2023 declared	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(66)**	**(66)**	**-**	**(66)**
Final dividend for 2023 proposed	**-**	**(193)**	**-**	**-**	**-**	**-**	**193**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers	**-**	**-**	**-**	**-**	**-**	**155**	**-**	**-**	**-**	**-**	**-**	**-**	**(155)**	**-**	**-**	**-**
At 31 December 2023	**39**	**1,599**	**9**	**73**	**10**	**833**	**193**	**22**	**(3)**	**51**	**(51)**	**(28)**	**3,148**	**5,895**	**279**	**6,174**

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. During the year ended 31 December 2022, movement of other reserve represents the difference between the consideration and carrying amount of net assets value relating to acquisition of equity interest in subsidiaries from non-controlling interests that do not results in change of control. During the year ended 31 December 2023, movement of capital reserve represents deemed consideration transferred for acquisition of subsidiaries.

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.) ("NetDragon (Fujian)") using the principles of merger accounting.

d. As stipulated by the relevant laws and regulations for enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain statutory reserves. Appropriation to such reserve is made out of profit after taxation as reflected in the statutory financial statements of each of the PRC subsidiaries while the amounts and allocation basis are decided by its board of directors annually. The statutory reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

e. Treasury share reserve comprises the consideration paid for the treasury shares held for the share award scheme, including any attributable incremental costs for the purchase of shares under the share award scheme.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RMB million	2022 RMB million
OPERATING ACTIVITIES		
Profit for the year	**447**	764
Adjustments for:		
Taxation	**188**	76
Finance costs	**268**	219
Interest income on bank balances, loan receivables, refundable rental deposits and convertible promissory notes	**(68)**	(33)
Fair value change on financial assets at fair value through profit or loss	**(75)**	33
Fair value change on derivative financial instruments	**(28)**	(15)
Fair value change on investment properties	**–**	5
Depreciation of property, plant and equipment	**194**	190
Depreciation of right-of-use assets	**76**	76
Amortisation of intangible assets	**151**	126
Loss on disposal of property, plant and equipment	**1**	–
Gain on disposal of intangible assets	**(71)**	–
Impairment loss of intangible assets	**–**	77
Reversal of impairment loss of intangible assets	**(44)**	–
Write off of intangible assets	**19**	–
Impairment loss under expected credit loss model, net of reversal	**3**	14
Impairment of prepayment to an agent for purchasing cryptocurrencies	**21**	–
Share-based payments	**104**	6
Share of results of associates and joint ventures	**4**	17
Forgiveness of partial bank borrowings	**–**	(33)
Write-down of inventories	**42**	25
Write-down of property held for sale	**24**	–
Redemption loss of convertible and exchangeable bonds	**156**	–
Operating cash flows before movements in working capital	**1,412**	1,547

	2023 RMB million	2022 RMB million
Decrease (increase) in inventories	336	(129)
(Increase) decrease in trade receivables	(19)	199
Increase in other receivables, prepayments and deposits	(66)	(113)
Increase in properties under development	(57)	(106)
Decrease in properties for sale	23	1
Decrease in trade and other payables	(211)	(23)
Increase in contract liabilities	73	47
Increase in provisions	26	29
Cash generated from operations	1,517	1,452
Interest paid	(102)	(62)
Income tax paid	(300)	(320)
NET CASH FROM OPERATING ACTIVITIES	**1,115**	1,070

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RMB million	2022 RMB million
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(278)**	(165)
Purchase of intangible assets	**(344)**	(129)
Placement of bank deposits with original maturity over three months	**(622)**	(275)
Withdrawal of bank deposits with original maturity over three months	**500**	702
Deposits made for acquisition of property, plant and equipment	**–**	(4)
Investments in an associate and joint ventures	**(14)**	(1)
Advance to a joint venture	**(2)**	(2)
Cash inflow (outflow) on acquisition of operation through business combination	**28**	(34)
Net cash outflow on disposal of a subsidiary	**–**	(3)
Placement of pledged bank deposits	**(313)**	–
Withdrawal of pledged bank deposits	**–**	8
Interest received	**62**	44
Repayment of loan receivables	**1**	19
Proceeds from disposal of property, plant and equipment	**2**	2
Proceeds from disposal of intangible assets	**234**	–
Purchase of financial assets at fair value through profit or loss	**(11,199)**	(11,767)
Proceeds from disposal of financial assets at fair value through profit or loss	**11,171**	11,549
Purchase of equity instruments at fair value through other comprehensive income	**(10)**	(50)
Advance of loan receivables	**(130)**	–
Net cash outflow on deregistration of a subsidiary	**(1)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(915)**	(106)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RMB million	2022 RMB million
FINANCING ACTIVITIES		
New bank borrowings raised	**1,150**	878
Proceeds from shares issued upon exercise of share options	**5**	–
Redemption of convertible and exchangeable bonds	**(903)**	–
Repayment of bank borrowings	**(861)**	(537)
Dividends paid	**(877)**	(1,225)
Repayment of lease liabilities	**(76)**	(69)
Payment for repurchase and cancellation of shares	**(134)**	(68)
Acquisitions of additional equity interests from non-controlling interests	**–**	(10)
Contribution from non-controlling interests of a subsidiary	**1**	12
NET CASH USED IN FINANCING ACTIVITIES	**(1,695)**	(1,019)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,495)**	(55)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**3,701**	3,717
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**35**	39
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**2,241**	3,701

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, 20/F, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

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

Mynd.ai, Inc. ("Mynd.ai"), whose shares are listed on The American Stock Exchange, becomes an indirect non-wholly owned subsidiary of the Company upon completion of a series of transactions during the year as set out in Note 45. Mynd.ai operates the Group's overseas education business, which is known as the "Mynd.ai business".

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

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

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

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 "Income Taxes" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;

(ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group disclose the related deferred tax assets of RMB22 million and deferred tax liabilities of RMB22 million on a gross basis as at 1 January 2022 in Note 23 but it has no impact on the retained earnings at the earliest period presented.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

Impacts on application of Amendments to HKAS 12 "Income Taxes International Tax Reform – Pillar Two Model Rules"

The Group has applied the amendments for the first time in the current year. HKAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two Legislation"). The amendments require that entities apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to the application of the amendments (the "Pillar Two income taxes") in periods in which the Pillar Two Legislation is in effect, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two Legislation is enacted or substantially enacted in effect beyond annual reporting periods beginning on or after 1 January 2023.

The Group has applied the temporary exception immediately upon issue of these amendments and retrospectively, i.e. applying the exception from the date Pillar Two Legislation is enacted or substantially enacted. The qualitative and quantitative information about the Group's exposure to Pillar Two income taxes is set out in Note 9.

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

The Group has applied the amendments for the first time in the current year. HKAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies" (Cont'd)

HKFRS Practice Statement 2 "Making Materiality Judgements" (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3 to the consolidated financial statements.

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined.

2 Effective for annual periods beginning on or after 1 January 2024.

3 Effective for annual periods beginning on or after 1 January 2025.

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

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

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

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")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

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

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within twelve months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

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

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

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

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if an entity classifies liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period. In addition, Hong Kong Interpretation 5 was revised as a consequence of the 2020 Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 Amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

As at 31 December 2023, the Group's outstanding convertible instruments, comprising convertible and exchangeable bonds (Note 34), convertible note (Note 35) and convertible preferred shares (Note 36), include counterparty conversion options that do not meet equity instruments classification by applying HKAS 32. The Group classified as current or non-current based on the earliest date in which the Group has the obligation to redeem these instruments through cash settlement.

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

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

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

In respect of the convertible and exchangeable bonds, the host debt component is measured at amortised cost with carrying amount of RMB256 million, of which RMB3 million and RMB253 million are classified as current and non-current respectively as set out in Note 34 as at 31 December 2023, while the derivative component (including the conversion options) is measured at fair value with carrying amount of nil as at 31 December 2023 as set out in Note 21.

In respect of the convertible note, the host debt component is measured at amortised cost with carrying amount of RMB357 million, of which RMB1 million and RMB356 million are classified as current and non-current respectively as set out in Note 35 as at 31 December 2023, while the derivative component (including the conversion options) is measured at fair value with carrying amount of RMB101 million as at 31 December 2023 as set out in Note 21.

For the convertible preferred shares, the financial liability component (representing the conversion feature) is measured at fair value through profit or loss ("FVTPL") and no financial liability component is measured at amortised cost.

Upon the application of the 2020 Amendments, in addition to the obligation to redeem through cash settlement, the transfer of equity instruments upon the exercise of the conversion options that do not meet equity instruments classification also constitute settlement of the convertible instruments. Given that the conversion options are exercisable anytime, the host liability and the derivative component of the Group's convertible and exchangeable bonds amounting to RMB256 million would be reclassified to current liabilities as the holders have the option to convert within twelve months after the reporting period. Except for described above, the application of the 2020 and 2022 Amendments has no impact to the classification of the Group's other liabilities as at 31 December 2023.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

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

3.2 Material accounting policy information

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities including Structured Entities (as defined in Note 4) controlled by the Company and its subsidiaries. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income ("OCI") from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are recognised in profit or loss as incurred. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date.

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment. A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Investments in associates and joint ventures

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

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

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in Notes 5, 27 and 30.

Warranties

If a customer has the option to purchase an extended warranty separately, the Group accounts for the extended warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation. If a customer does not have the option to purchase an extended warranty separately, the Group accounts for the basic warranty in accordance with HKAS 37 unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Leases

The Group as a lessee

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The Group presents right-of-use assets that do not meet the definition of investment property, properties under development and properties for sale as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property and inventory are presented within "investment properties", "properties under development" or "properties for sale", as appropriate.

Lease liabilities

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Foreign currencies

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in OCI and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in OCI.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income and gains".

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Employee benefits

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are recognised as an expense when employees have rendered services entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date without taking into consideration all non-market vesting conditions and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

The Group operates share award scheme which allows it to grant shares to selected employees. For the shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

At the end of each reporting period, the Group revises its estimate of the number of shares that are expected to vest. The impact of the revision of original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Taxation

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Properties under development/properties for sale

Properties under development which are intended to be sold upon completion of development and properties for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets, properties under development/properties for sale are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Properties under development are transferred to properties for sale upon completion.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets

Classification and subsequent measurement of financial assets

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

(ii) Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "fair value change on financial assets at fair value through profit or loss" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 "Financial Instruments" ("HKFRS 9")

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments

Convertible preferred shares

The convertible non-redeemable preferred shares of the Group comprise a financial liability component and an equity component. The financial liability component, representing the conversion feature, is classified as financial liabilities at FVTPL. It is initially recognised at fair value. Subsequent to initial recognition, the financial liability component is measured at fair value with changes in fair value recognised in the profit or loss. On initial recognition, the difference between the fair value of the convertible non-redeemable preferred shares in its entirety and the fair value of the financial liability component is assigned to equity component. The equity component reflects the issuer's discretion to pay dividends.

Convertible and exchangeable bonds

The convertible and exchangeable bonds are classified as financial liabilities in accordance with the substance of the contractual arrangements and the definition of a financial liability. A convertible and exchangeable option that can be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments does not meet the definition of equity and is therefore accounted for as a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible and exchangeable bonds is carried at amortised cost using the effective interest method. The derivative components are measured at fair value with changes in fair value recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

3.2 Material accounting policy information (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Convertible note

The convertible note is classified as financial liabilities in accordance with the substance of the contractual arrangements and the definition of a financial liability. A convertible option that can be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the equity instruments of a non-wholly owned subsidiary of the Group does not meet the definition of equity and is therefore accounted for as a conversion option derivatives.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible note is carried at amortised cost using the effective interest method. The derivative components are measured at fair value with changes in fair value recognised in profit or loss.

Derivative financial instruments and other embedded derivative features of convertible note

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not due to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying the accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and its subsidiaries do not hold any equity interests in NetDragon (Fujian), nor, in any of NetDragon (Fujian)'s subsidiaries, 福建省華漁教育科技有限公司 ("Fujian Huayu") and 福建省天晴互動娛樂有限公司 (collectively referred to as the "Structured Entities"). Nevertheless, under the contractual agreements entered into among the Group, NetDragon (Fujian) and the Controlling Shareholders who are the registered owners of NetDragon (Fujian), the directors of the Company determine that the Group has the power to direct the relevant activities, which significantly affect the returns of the Structured Entities. As such, the Structured Entities are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to RMB3,229 million (2022: RMB3,023 million) for the year ended 31 December 2023. At 31 December 2023, total assets and total liabilities of the Structured Entities amounted to RMB945 million (2022: RMB934 million) and RMB316 million (2022: RMB326 million), respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Impairment of goodwill and intangible assets with indefinite useful lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the recoverable amount of the CGUs to which goodwill and intangible assets with indefinite useful lives have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate growth rates in cash flow forecasts and a suitable discount rate applied to these forecasts in order to calculate the present value. Where the actual future cash flow forecasts are less than expected, or change in facts and circumstances which results in downward revision of future cash flow or upward revision of discount rate, a material impairment loss or further impairment loss may arise. As at 31 December 2023, the carrying amounts of goodwill and intangible assets with indefinite useful lives are set out in Notes 17 and 18 respectively. Details of the recoverable amount calculation of goodwill and intangible assets with indefinite useful lives are disclosed in Note 19.

(ii) Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 16 and 40 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

(b) Key sources of estimation uncertainty (Cont'd)

(iii) Deferred tax asset

As at 31 December 2023, a deferred tax asset of RMB155 million (2022: RMB149 million) in relation to unused tax losses of a subsidiary incorporated in the United States of America ("USA") has been recognised in the consolidated statement of financial position after an internal reorganisation. The realisability of the deferred tax asset arising from the above-mentioned tax losses incorporated in the USA is a key source of estimation uncertainty. In cases where the actual future taxable profits generated by the relevant entities are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place. Further details of the internal reorganisation are set out in Note 9.

5. REVENUE AND SEGMENT INFORMATION

Performance obligation for contracts with customers

Revenue from online and mobile games

For revenue from online and mobile games, the Group operates self-developed games. The Group's games are free to play. Players can purchase game points which are virtual currency for acquisition of virtual products or premium features or purchase those virtual products or premium features directly for better game experience. The Group sells pre-paid game points and game products or premium features through its distribution and payment channels by (i) direct sales (both online payment systems and other direct sales channels/third party platforms) and (ii) game cards sales through distributors.

The performance obligation in relation to revenue for online and mobile games is satisfied at a point in time upon the utilisation of virtual products or premium features.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Performance obligation for contracts with customers (Cont'd)

Revenue from online and mobile games (Cont'd)

The virtual products or premium features purchased by the customers are mainly the consumable virtual products or premium features that are extinguished after consumption by a specific game player action in the online and mobile games. The game players will not continue to benefit from the virtual products or premium features thereafter.

The Group evaluates from time to time its roles and responsibilities in the delivery of virtual products or premium features in online and mobile games to the game players and concludes that the Group takes the primary responsibilities. The Group is determined to be the primary obligor and reports revenue in gross amounts. Due to the fact that the third party platforms may offer various marketing activities from time to time to game players, the actual prices paid by any individual game players may be different from the standard prices of virtual products or premium features purchased, the Group has to attempt to make a reasonable estimation for the gross revenue amount through tracking third party platforms' marketing activities.

However, for the Group's online and mobile games which are published through a large number of domestic third party platforms, since those platforms would offer various market discounts to game players, it is difficult for the Group to make a reasonable estimation for the gross revenue, as such, the Group reports revenue to the extent of the amounts received and receivable from those domestic third party platforms. Revenue is recognised on a gross basis if the Group is able to make a reasonable estimate of the gross revenue.

The amount received from customers for pre-paid game points is deferred and recorded as contract liabilities and would be recognised as revenue at a point in time (i.e. online or mobile game revenue) after the actual usage of the game points for purchasing virtual products or premium features.

The normal credit term to its distribution and payment channels is 30 to 60 days upon the receipt of the money on game points collected from customers.

Revenue from sales of education equipment and related goods

For revenue from sales of education equipment and related goods, the performance obligation is satisfied at a point in time when the education equipment and related goods are delivered and titles have passed. The normal credit term is 30 to 60 days upon delivery.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Performance obligation for contracts with customers (Cont'd)

Revenue from educational services

Revenue from educational services which mainly represents the tuition fee are recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. It is recognised over time using input method, i.e. based on the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation contract that best depict the Group's performance in transferring control of goods or services. The Group collects the educational service fee once a year before the commencement on providing the educational services.

Revenue from provision of mobile solution, products and marketing services

Revenue from provision of mobile solution, products and marketing services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. It is recognised over time using output method, i.e. to recognise revenue on the basis of direct measurement of the value of goods or services promised under the contract that best depict the Group's performance in transferring control of goods or services. The contracts on provision of mobile solution, products and marketing services include payment schedules which require stage payments over the service period once certain specified milestones are reached and customers are offered 30 to 45 days credit term after the billing is issued.

Revenue from property development

Revenue from property development is recognised when the respective properties have been completed and delivered to the customers, which is a point in time when customers have the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Pre-sale deposits and advance payment received from customers for property development are included in contract liabilities.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

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 under the current reporting structure as further set out in the "segment information" section of this note.

Types of goods and services

	For the year ended 31 December 2023			
	Gaming and application services RMB million	Mynd.ai RMB million	Property development RMB million	Total RMB million
Revenue from sales of pre-paid game cards for online and mobile games	3,759	-	-	3,759
Sales of education equipment and related goods	199	2,837	-	3,036
Revenue from educational services	150	73	-	223
Revenue from provision of mobile solution, products and marketing services	81	-	-	81
Revenue from property development	-	-	2	2
	4,189	2,910	2	7,101

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

Types of goods and services (Cont'd)

	For the year ended 31 December 2022			
	Gaming and application services RMB million (Restated)	Mynd.ai RMB million (Restated)	Property development RMB million	Total RMB million
Revenue from sales of pre-paid game cards for online and mobile games	3,430	–	–	3,430
Sales of education equipment and related goods	292	3,907	–	4,199
Revenue from educational services	125	12	–	137
Revenue from provision of mobile solution, products and marketing services	84	–	–	84
Revenue from property development	–	–	16	16
	3,931	3,919	16	7,866

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

Timing of revenue recognition

	For the year ended 31 December 2023			
	Gaming and application services RMB million	Mynd.ai RMB million	Property development RMB million	Total RMB million
A point in time	3,958	2,837	2	6,797
Over time	231	73	-	304
	4,189	2,910	2	7,101

	For the year ended 31 December 2022			
	Gaming and application services RMB million (Restated)	Mynd.ai RMB million (Restated)	Property development RMB million	Total RMB million
A point in time	3,722	3,907	16	7,645
Over time	209	12	–	221
	3,931	3,919	16	7,866

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

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

Geographical information

	For the year ended 31 December 2023			
	Gaming and application services RMB million	**Mynd.ai RMB million**	**Property development RMB million**	**Total RMB million**
Mainland China	**3,517**	**-**	**2**	**3,519**
USA	**561**	**2,047**	**-**	**2,608**
Europe (Note)	**-**	**741**	**-**	**741**
Other regions	**111**	**122**	**-**	**233**
	4,189	**2,910**	**2**	**7,101**

	For the year ended 31 December 2022			
	Gaming and application services RMB million (Restated)	Mynd.ai RMB million (Restated)	Property development RMB million	Total RMB million
Mainland China	3,260	–	16	3,276
USA	555	2,731	–	3,286
Europe (Note)	–	1,018	–	1,018
Other regions	116	170	–	286
	3,931	3,919	16	7,866

Note: Europe mainly includes Germany, United Kingdom ("UK"), Italy, France, Spain and others. Each of these countries individually contributed less than 10% of total revenue.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially satisfied) and the expected timing of recognising revenue are as follows:

	At 31 December 2023		
	Gaming and application services RMB million (Note)	Mynd.ai RMB million	Property development RMB million
Within one year	403	104	8
More than one year but not more than two years	1	54	–
More than two years	1	99	–
	405	257	8

	At 31 December 2022		
	Gaming and application services RMB million (Restated) (Note)	Mynd.ai RMB million (Restated)	Property development RMB million
Within one year	373	63	11
More than one year but not more than two years	3	29	–
More than two years	2	89	–
	378	181	11

Note: The unused game points in gaming and application services revenue have no expiration period and can be used at any time at customers' discretion. The amounts disclosed above represent the Group's expectation on the timing of utilisation by customers.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information

Information reported to the Group's chief operating decision makers ("CODM"), being the directors of the Company, for the purpose of resource allocation and assessment of segment performance, was based on the geographical locations of the customers. In the current year, the Group reorganised its internal reporting structure, which resulted in changes to the composition of its operating and reportable segments, as set out below:

The "education" segment in previous reporting structure is now divided geographically into the PRC and overseas operations. The education business operated in the PRC, "online and mobile games" segment in previous reporting structure and "mobile solution, products and marketing" segment in the previous reporting structure are combined and presented as "gaming and application services"; education business operated overseas is classified as a separate segment and is named as "Mynd.ai"; and "property project" segment in previous reporting structure is renamed as "property development" segment to better reflect the relevant businesses of the Group, assessments of performance across different operating units and allocations of resources thereto. Prior year segment disclosures are restated to conform with the current year presentation.

Specifically, the Group's reportable segments under HKFRS 8 "Operating Segments" in the current year are as follows:

- Gaming and application services: Internet and technology-enabled services, including gaming and software and related or ancillary services;
- Mynd.ai: Overseas education business; and
- Property development.

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

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

	For the year ended 31 December 2023			
	Gaming and application services RMB million	Mynd.ai RMB million	Property development RMB million	Total RMB million
Segment revenue	4,189	2,910	2	7,101
Segment profit (loss)	1,103	(315)	(59)	729
Unallocated other income and gains				124
Unallocated corporate expenses and losses				(218)
Profit before taxation				635

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

	For the year ended 31 December 2022			
	Gaming and application services RMB million (Restated)	Mynd.ai RMB million (Restated)	Property development RMB million	Total RMB million
Segment revenue	3,931	3,919	16	7,866
Segment profit (loss)	919	(16)	(7)	896
Unallocated other income and gains				35
Unallocated corporate expenses and losses				(91)
Profit before taxation				840

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

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

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

5. 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:

	2023 RMB million	2022 RMB million (Restated)
Gaming and application services	**5,555**	6,861
Mynd.ai	**3,052**	2,679
Property development	**725**	704
Total segment assets	**9,332**	10,244
Unallocated	**1,050**	787
	10,382	11,031

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as certain equity instruments at fair value through other comprehensive income ("FVTOCI"), certain financial assets at FVTPL, 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. REVENUE AND SEGMENT INFORMATION (Cont'd)

Geographical information

The details of the Group's revenue from external customers by geographical location of the operations are set out in this note.

The Group's non-current assets, excluding equity instruments at FVTOCI, financial assets at FVTPL, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

	2023	2022
	RMB million	RMB million
		(Restated)
Mainland China	**2,974**	2,447
Hong Kong	**444**	199
USA	**650**	73
UK	**235**	743
Others	**146**	67
	4,449	3,529

Information about major customers

No single customer of the Group individually contributed over 10% of the Group's revenue for the year ended 31 December 2023. Revenue from a customer of the Mynd.ai segment amounting to RMB941 million, contributed over 10% of the Group's revenue for the year ended 31 December 2022.

6. OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES

(a) Other income and gains

	2023	2022
	RMB million	RMB million
Government grants (Note)	**53**	156
Interest income on bank balances, loan receivables, refundable rental deposits and convertible promissory notes	**68**	33
Rental income, net of negligible outgoing expenses	**1**	1
Rental income arising from subleases	**2**	5
Reversal of impairment loss of intangible assets	**44**	–
Gain on disposal of intangible assets	**71**	–
Tax incentives	**9**	15
Others	**16**	13
	264	223

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 RMB43 million (2022: RMB113 million) for the year ended 31 December 2023 and is recognised in profit or loss; (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 to profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure with an amount of RMB10 million (2022: RMB7 million); and (iii) loan forgiveness which resulted from government subsidy that the government in the USA repaid bank borrowings of USD5 million (equivalent to RMB33 million) for the year ended 31 December 2022 (2023: Nil) on behalf of the Group during the period of Covid-19.

Further details of government grants are set out in Notes 27 and 29.

6. OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

(b) Other expenses and losses

	2023 RMB million	2022 RMB million
Net foreign exchange loss	48	38
Other tax and charges	37	36
Write off/impairment loss of intangible assets	19	77
Redundancy payments	93	40
Impairment of prepayment to an agent for purchasing cryptocurrencies	21	–
Impairment of prepayment for purchasing licence	47	–
Redemption loss of convertible and exchangeable bonds	156	–
Others	25	22
	446	213

7. FINANCE COSTS

	2023 RMB million	2022 RMB million
Interest on:		
– Bank borrowings	46	18
– Lease liabilities	5	7
– Convertible and exchangeable bonds	211	194
– Convertible note	1	–
– Others	5	–
	268	219

8. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2023 RMB million	2022 RMB million
Impairment losses recognised on trade and other receivables	3	14

Details of impairment assessment of trade receivables are set out in Note 40.

9. TAXATION

	2023 RMB million	2022 RMB million
The tax charge (credit) comprises:		
Hong Kong Profits Tax (Note a)		
– Current year	**47**	55
PRC Enterprise Income Tax ("EIT") (Note b)		
– Current year	**217**	225
– (Over) under provision in prior years	**(3)**	3
	214	228
Taxation in other jurisdictions (Note c)		
– Current year	**4**	6
– Under provision in prior years	**6**	–
	10	6
Deferred taxation (Note 23)		
– Current year	**(83)**	(26)
– Net recognition of unused tax losses in prior years (Note d)	**–**	(187)
	(83)	(213)
	188	76

9. TAXATION (Cont'd)

Notes:

(a) Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

(b) PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

A number of subsidiaries of the Company were approved to be hi-tech enterprises and are entitled to a reduced tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every three years. During the years ended 31 December 2023 and 2022, the following subsidiaries are subject to a reduced tax rate of 15%, including Fujian TQ Digital Inc. ("TQ Digital"), Fujian TQ Online Interactive Inc. ("TQ Online"), 福建省天奕網絡科技有限公司, 成都掌沃無限科技有限公司, Fujian Tianquan Education Technology Limited ("Fujian Tianquan"), 蘇州馳聲信息科技有限公司 and 福建省網龍普天教育科技有限公司.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of NetDragon (Fujian) is 25% for both years.

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors and interest payable to depositors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends and interest have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries and interest payable by the PRC lenders to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable.

(c) For the year ended 31 December 2023, the USA income tax rates applicable to subsidiaries incorporated in the USA is 21% (2022: 21%) for federal tax and 8.84% (2022: 8.84%) for state income tax.

The UK Corporation Tax Rate applicable to subsidiaries is 19% (2022: 19%) for the year ended 31 December 2023.

The Singapore's corporate income tax rate applicable to subsidiaries is 17% for the year ended 31 December 2023.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdiction.

9. TAXATION (Cont'd)

Notes: (Cont'd)

(d) Pursuant to a reorganisation completed in prior year, a subsidiary of the Company incorporated in the USA ("Subsidiary A") became a subsidiary of another subsidiary of the Company incorporated in the USA ("Subsidiary B", together with Subsidiary A, collectively the "Group B"). On the completion date of the reorganisation, Subsidiary A was converted into a limited liability company and became disregarded as separate from its owner for the USA income tax purposes. According to the relevant applicable USA tax principles, members of Group B would file tax returns as one tax entity in the USA. The management of the Group assessed whether sufficient future profits or taxable temporary differences will be available in the future on a combined basis for Group B and concluded that certain amount of the unused tax losses of Subsidiary A can be utilised.

(e) The Group has applied the temporary exception issued by the HKICPA in July 2023 from the accounting requirements for deferred taxes in HKAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes. The Group is continuing to assess the impact of the Pillar Two income taxes legislation on its future financial performance.

9. TAXATION (Cont'd)

The tax charge for the year is reconciled to the profit before taxation per the consolidated statement of profit or loss and OCI as follows:

	2023 RMB million	2022 RMB million
Profit before taxation	**635**	840
Tax at the applicable tax rate of 25% (2022: 25%) (Note a)	**159**	210
Tax effect of share of results of associates and joint ventures	**1**	4
Tax effect of income not taxable for tax purpose	**(64)**	(48)
Tax effect of expenses not deductible for tax purpose	**197**	144
Utilisation of tax losses previously not recognised	**(18)**	–
Tax effect of tax losses not recognised	**181**	195
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(48)**	(24)
Tax effect of deductible temporary differences not recognised	**5**	–
Effect of previously not recognised deductible temporary differences and unused tax losses recognised as deferred tax assets in current year	**–**	(183)
Additional tax benefit on development expenses (Note b)	**(32)**	(21)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(192)**	(201)
Under provision in prior years	**3**	3
Others	**(4)**	(3)
Tax charge for the year	**188**	76

Notes:

(a) The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2023 and 2022.

(b) Pursuant to the relevant tax rules and regulations, the Group is eligible for additional tax benefit, which is equivalent to 100% (2022: 75% for first three quarters and 100% for the fourth quarter) of the staff costs and depreciation under research and development costs incurred for the development of new games and advanced technology development.

Details of deferred taxation are set out in Note 23.

10. PROFIT FOR THE YEAR

	2023 RMB million	2022 RMB million
Profit for the year has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**153**	34
Other staff costs		
Salaries and other benefits	**2,024**	1,930
Contributions to retirement benefits schemes	**169**	145
Share-based payments expense	**24**	1
Redundancy payments	**93**	40
	2,463	2,150
Auditor's remuneration		
– audit services	**13**	9
– non-audit services	**23**	2
	36	11
Depreciation of property, plant and equipment	**194**	190
Depreciation of right-of-use assets	**76**	76
Amortisation of intangible assets	**151**	126
Total depreciation and amortisation	**421**	392
Cost of goods sold for education equipment and related goods	**2,180**	3,075
Write-down of inventories	**42**	25
Advertising and promotion expenses (included in selling and marketing expenses)	**348**	404
Write off/impairment loss of intangible assets	**19**	77
Reversal of impairment loss of intangible assets	**(44)**	–
Net foreign exchange loss excluding exchange loss on financial assets at FVTPL, convertible and exchangeable bonds, convertible note and derivative financial instruments	**48**	38

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and the chief executive's emoluments

The emoluments paid or payable to each of the nine (2022: ten) directors of the Company were as follows:

	2023				
	Fees RMB million	Salaries and other benefits RMB million	Contributions to retirement benefits schemes RMB million (Note f)	Share-based payments expense RMB million	Total RMB million
Executive directors					
Dr. Liu Dejian	–	12	–	–	12
Dr. Leung Lim Kin, Simon (Note a)	–	56	–	80	136
Mr. Liu Luyuan (Note b)	–	1	–	–	1
Mr. Zheng Hui (Note c)	–	–	–	–	–
Mr. Chen Hongzhan	–	1	–	–	1
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Lee Kwan Hung, Eddie	1	–	–	–	1
Mr. Liu Sai Keung, Thomas	1	–	–	–	1
Mr. Li Sing Chung, Matthias (Note d)	1	–	–	–	1
	3	70	–	80	153

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

Directors' and the chief executive's emoluments (Cont'd)

	2022				
	Fees RMB million	Salaries and other benefits RMB million	Contributions to retirement benefits schemes RMB million (Note f)	Share-based payments expense RMB million	Total RMB million
Executive directors					
Mr. Liu Dejian	–	6	–	–	6
Dr. Leung Lim Kin, Simon (Note a)	–	17	–	5	22
Mr. Liu Luyuan (Note b)	–	1	–	–	1
Mr. Zheng Hui (Note c)	–	1	–	–	1
Mr. Chen Hongzhan	–	1	–	–	1
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles (Note e)	1	–	–	–	1
Mr. Lee Kwan Hung, Eddie	1	–	–	–	1
Mr. Liu Sai Keung, Thomas	1	–	–	–	1
Mr. Li Sing Chung, Matthias (Note d)	–	–	–	–	–
	3	26	–	5	34

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

Directors' and the chief executive's emoluments (Cont'd)

Notes:

(a) Included in the salaries and other benefits paid to Dr. Leung Lim Kin, Simon is an amount of RMB44 million (2022: RMB4 million) performance related bonus during the year ended 31 December 2023 which are determined based on the Group's performance for the year.

(b) Mr. Liu Luyuan is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

(c) Mr. Zheng Hui, an executive director, passed away on 7 June 2023.

(d) Mr. Li Sing Chung, Matthias was appointed as an independent non-executive director of the Company with effect from 30 December 2022.

(e) Mr. Chao Guowei, Charles resigned as an independent non-executive director of the Company with effect from 30 December 2022.

(f) Contributions to retirement benefits schemes for each of the executive director of the Company for the years ended 31 December 2023 and 2022 were less than RMB1 million.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

Five highest paid employees

Of the five highest emoluments in the Group, during both reporting periods, two (2022: one) were executive directors of the Company, whose emoluments are set out above. The emoluments of the remaining three (2022: four) individuals who are neither a director nor chief executive of the Company were as follows:

	2023 RMB million	2022 RMB million
Salaries and other benefits	**129**	114
Contributions to retirement benefits schemes	**–**	1
Share-based payments expense	**1**	1
	130	116

Their emoluments were within the following bands:

	2023 Number of employees	2022 Number of employees
Hong Kong dollar ("HKD") 8,500,001 to HKD9,000,000	**–**	1
HKD9,000,001 to HKD9,500,000	**–**	1
HKD11,500,001 to HKD12,000,000	**1**	–
HKD35,000,001 to HKD35,500,000	**–**	1
HKD56,500,001 to HKD57,000,000	**1**	–
HKD75,000,001 to HKD75,500,000	**1**	–
HKD81,000,001 to HKD81,500,000	**–**	1
	3	4

During the year ended 31 December 2023, no emoluments have been paid by the Group to any of the directors or the chief executive of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or the chief executive of the Company waived any remuneration during the years ended 31 December 2023 and 2022.

12. DIVIDENDS

	2023 RMB million	2022 RMB million
Dividends recognised as distribution during the year:		
2022 Final – HKD0.40 (2022: 2021 Final – HKD0.40) per share	191	177
2023 Second special interim – distribution in specie (2022: Nil)	66	–
2023 Special interim – HKD1.0 (2022: 2021 Special interim – HKD1.43 and 2022 special interim – HKD0.50) per share	490	863
2023 Interim – HKD0.40 (2022: 2022 Interim – HKD0.40) per share	196	185
	943	1,225

The 2023 final dividend of HKD0.40 (2022: HKD0.40) per share which has been proposed by the directors in the board meeting on 27 March 2024 and is subject to approval by the shareholders in the forthcoming annual general meeting, amounted to approximately RMB193 million (2022: RMB193 million).

13. EARNINGS PER SHARE

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

	2023	2022
	RMB million	RMB million
Earnings for the purpose of basic and diluted earnings per share:		
– Profit for the year attributable to the owners of the Company	**550**	834

	Number of shares	
	2023	2022
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**534,135**	540,694
Effect of dilutive potential shares from the Company's share option scheme	**–**	27
Weighted average number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**534,135**	540,721

The computation of diluted earnings per share for the year ended 31 December 2023 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 year ended 31 December 2023.

14. PROPERTY, PLANT AND EQUIPMENT

	Owned properties in the PRC other than in Hong Kong	Leasehold improvements	Plant and equipment	Motor vehicles	Construction in progress	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
COST						
At 1 January 2022	1,763	530	825	52	96	3,266
Exchange adjustments	1	1	2	–	–	4
Additions	33	16	64	7	71	191
Reclassification	57	13	6	–	(76)	–
Disposals	–	(4)	(28)	(4)	–	(36)
At 31 December 2022	**1,854**	**556**	**869**	**55**	**91**	**3,425**
Exchange adjustments	**–**	**–**	**8**	**–**	**–**	**8**
Additions	**–**	**7**	**71**	**1**	**265**	**344**
Acquisition of subsidiaries (Note 45)	**–**	**27**	**7**	**–**	**–**	**34**
Reclassification	**232**	**–**	**–**	**–**	**73**	**305**
Disposals	**(1)**	**(1)**	**(24)**	**(2)**	**–**	**(28)**
At 31 December 2023	**2,085**	**589**	**931**	**54**	**429**	**4,088**
DEPRECIATION						
At 1 January 2022	323	285	677	41	–	1,326
Exchange adjustments	1	–	1	–	–	2
Provided for the year	90	32	64	4	–	190
Eliminated on disposals	–	(1)	(25)	(3)	–	(29)
At 31 December 2022	**414**	**316**	**717**	**42**	**–**	**1,489**
Exchange adjustments	**–**	**–**	**8**	**–**	**–**	**8**
Provided for the year	**97**	**31**	**62**	**4**	**–**	**194**
Eliminated on disposals	**–**	**(1)**	**(23)**	**(1)**	**–**	**(25)**
At 31 December 2023	**511**	**346**	**764**	**45**	**–**	**1,666**
CARRYING VALUES						
At 31 December 2023	**1,574**	**243**	**167**	**9**	**429**	**2,422**
At 31 December 2022	1,440	240	152	13	91	1,936

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment, except for construction in progress, after taking into account the residual values, are depreciated on a straight-line basis, at the following rates per annum:

Owned properties	Over the shorter of the terms of the leases of 20 years, or 4%
Leasehold improvements	Over the shorter of the terms of the leases, or 4.74% – 33.33%
Plant and equipment	19% – 31.67%
Motor vehicles	19% – 31.67%

15. RIGHT-OF-USE ASSETS

	Leasehold lands	**Leased properties**	**Other assets**	**Total**
	RMB million	RMB million	RMB million	RMB million
As at 31 December 2023				
Carrying amount	**267**	**111**	**2**	**380**
As at 31 December 2022				
Carrying amount	274	105	1	380
For the year ended 31 December 2023				
Depreciation charge	**6**	**69**	**1**	**76**
For the year ended 31 December 2022				
Depreciation charge	6	69	1	76

	2023	2022
	RMB million	RMB million
Expense relating to short-term leases	**6**	5
Total cash outflow for leases	**88**	81
Additions to right-of-use assets	**39**	25
Acquisition of subsidiaries	**38**	–

15. RIGHT-OF-USE ASSETS (Cont'd)

The above items of right-of-use assets, are depreciated on a straight-line basis, at the following rates per annum:

Leasehold lands	2%
Leased properties	Over the terms of the leases, or 25%
Other assets	Over the terms of the leases, or 20% – 33.3%

For both years, the Group leases land and buildings and other assets for its operations. Lease contracts are entered into for fixed term of 1 year to 20 years, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group has obtained the land use right certificates for all leasehold lands.

The Group regularly entered into short-term leases for leased properties and office equipment respectively. As at 31 December 2023, the portfolio of short-term leases are similar to the portfolio of short-term leases to which the short-term lease expenses disclosed above.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. In the opinion of the management of the Group, the potential exposures to the associated future lease payments for extension options in which the Group is not reasonably certain to exercise the extension options as at 31 December 2023 and 2022 are not material.

The additional lease liabilities to be recognised during the years ended 31 December 2023 and 2022 due to the exercise of extension option that the Group was not reasonably certain to exercise is not material. In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the years ended 31 December 2023 and 2022, there is no such triggering event.

16. INVESTMENT PROPERTIES

The Group intends to lease out various offices under operating leases to earn rental income.

	2023	2022
	RMB million	RMB million
Fair value		
At 31 December	**60**	59

The Group's investment properties consist of two units of office premises in Hong Kong.

The fair values of the office premises as at 31 December 2023 and 2022 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The fair values of the office premises are determined based on the market approach which uses the prices and other relevant information generated by market transactions involving comparable properties. One of the key unobservable inputs used in valuing the investment properties is the market unit rate taking into account the recent transaction prices of similar properties nearby the Group's investment properties adjusted for location and conditions of the properties which ranged from HKD20,855 (equivalent to RMB18,899) per sq.ft to HKD26,953 (equivalent to RMB24,425) per sq.ft (2022: ranged from HKD21,429 (equivalent to RMB19,142) per sq.ft to HKD28,791 (equivalent to RMB25,718) per sq.ft), where sq.ft is a common unit of area used in Hong Kong. An increase in the market unit rate would result in an increase in fair value measurement of the investment properties, and vice versa. There has been no change in the valuation technique used from the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The investment properties were categorised into Level 3 of the fair value hierarchy as at 31 December 2023 and 2022. There were no transfers into or out of Level 3 during the year.

17. GOODWILL

	2023 RMB million	2022 RMB million
COST		
At 1 January	**533**	451
Acquisition of subsidiaries/operation through business combination	**26**	45
Adjustments	**(5)**	–
Write off during the year	**(7)**	–
Exchange adjustments	**20**	37
At 31 December	**567**	533
IMPAIRMENT		
At 1 January	**246**	234
Write off during the year	**(7)**	–
Exchange adjustments	**3**	12
At 31 December	**242**	246
CARRYING VALUES		
At 31 December	**325**	287

Particulars regarding impairment assessment of goodwill are disclosed in Note 19.

18. INTANGIBLE ASSETS

	Trademarks	Licences	Non-competition agreement	Customers relationship	Patent and technology	Development costs	Crypto-currencies	Others	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
	(Note a)		(Note b)	(Note b)	(Note c)	(Note d)	(Note e)		
COST									
At 1 January 2022	384	134	61	142	301	377	130	108	1,637
Exchange adjustments	36	–	–	6	23	38	1	2	106
Additions	–	–	–	–	–	87	23	19	129
Acquisition of operation through business combination	3	–	8	–	–	–	–	–	11
Disposals and write off for the year	–	(33)	–	–	–	–	(3)	–	(36)
At 31 December 2022	**423**	**101**	**69**	**148**	**324**	**502**	**151**	**129**	**1,847**
Exchange adjustments	**7**	**-**	**-**	**1**	**5**	**9**	**-**	**-**	**22**
Additions	**-**	**10**	**-**	**-**	**-**	**115**	**219**	**-**	**344**
Acquisition of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**58**	**58**
Disposals and write off for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(163)**	**(19)**	**(182)**
At 31 December 2023	**430**	**111**	**69**	**149**	**329**	**626**	**207**	**168**	**2,089**
AMORTISATION/IMPAIRMENT									
At 1 January 2022	153	51	51	123	186	259	2	40	865
Exchange adjustments	14	–	–	6	15	37	–	2	74
Provided for the year	–	19	7	7	32	51	–	10	126
Disposals and write off for the year	–	(33)	–	–	–	–	(1)	–	(34)
Impairment loss for the year	–	30	–	–	–	–	47	–	77
At 31 December 2022	**167**	**67**	**58**	**136**	**233**	**347**	**48**	**52**	**1,108**
Exchange adjustments	**3**	**-**	**-**	**1**	**3**	**(1)**	**-**	**-**	**6**
Provided for the year	**2**	**12**	**6**	**7**	**33**	**73**	**-**	**18**	**151**
Reversal of impairment loss	**-**	**-**	**-**	**-**	**-**	**-**	**(44)**	**-**	**(44)**
At 31 December 2023	**172**	**79**	**64**	**144**	**269**	**419**	**4**	**70**	**1,221**
CARRYING VALUES									
At 31 December 2023	**258**	**32**	**5**	**5**	**60**	**207**	**203**	**98**	**868**
At 31 December 2022	256	34	11	12	91	155	103	77	739

18. INTANGIBLE ASSETS (Cont'd)

Notes:

(a) Included in the trademarks of RMB255 million (2022: RMB251 million) as at 31 December 2023 are those acquired in acquisition of Promethean World Limited ("Promethean", an indirect non-wholly owned subsidiary of the Company) and its subsidiaries (collectively referred to as "Promethean Group") having legal lives of 2 to 20 years and are renewable every 2 to 20 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in Note 19.

(b) Non-competition agreement and customers relationship were mainly arising from the acquisition of Cherrypicks International Holdings Limited and its subsidiaries (collectively referred to as the "Cherrypicks Group"). Cherrypicks Group have long and close business relationship with its major customers and non-competition agreement was signed between Cherrypicks Group and its employees upon acquisition. The acquisition of Cherrypicks Group has allowed the Group to develop its long term growth from Cherrypicks Group's mobile solution, products and marketing business.

(c) Patent and technology represents the acquired technological know-how for producing interactive whiteboard, interactive flat panel, augmented reality and various mobile application. The patent and technology were mainly acquired from the acquisition of Promethean Group.

(d) Development costs represent (i) the software for a cloud-based teaching and learning platform which connects students' tablets and laptops to interactive displays (interactive whiteboard and interactive flat panel) and such development costs were acquired from acquisition of the Promethean Group and (ii) the technological know-how internally generated for personalised location services, marketing and e-commerce, location intelligence and data analysis.

(e) Cryptocurrencies are measured at its cost less any accumulated impairment losses. The recoverable amounts of the cryptocurrencies have been determined based on their fair value less costs of disposal. The Group uses direct quoted prices in active market, which is under Level 1 fair value measurement, to estimate the fair value less costs of disposal. The relevant assets were impaired to their recoverable amount at the end of reporting period and the reversal of impairment of RMB44 million has been recognised in "other income and gains" for the year ended 31 December 2023 (2022: impairment of RMB47 million has been recognised in "other expenses and losses").

18. INTANGIBLE ASSETS (Cont'd)

The intangible assets with finite useful lives are amortised on a straight-line basis at the following rates per annum:

Trademarks	10% – 57.14%
Licences	5% – 50%
Non-competition agreement	11.11% – 33.33%
Customers relationship	10% – 16.67%
Patent and technology	10%
Development costs	33.33%
Others	10% – 50%

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 17 and 18 respectively have been allocated to two (2022: one) individuals or groups of CGUs. The carrying amounts of goodwill and trademarks as at 31 December 2023 and 31 December 2022 allocated to these units are as follows:

	Goodwill		Trademarks	
	2023	2022	**2023**	2022
	RMB million	RMB million	**RMB million**	RMB million
Promethean Group	**299**	287	**255**	251
GEHI Singapore Operations (as defined in Note 45)	**26**	N/A	**-**	N/A
	325	287	**255**	251

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (Cont'd)

At 31 December 2023, the recoverable amount of each of above CGUs was determined individually based on its fair value less cost of disposal. The fair value less cost of disposal of each of the Promethean Group and GEHI Singapore Operations is determined with reference to the quoted price of Mynd.ai, which operates the businesses of both CGUs as set out above.

At 31 December 2022, the recoverable amount of the Promethean Group was determined individually based on value in use calculations using the discounted cash flow method. The value in use calculations use cash flow projections based on cash flow forecasts approved by management covering a five-year period and discount rates specific to the CGU. Cash flows beyond the five-year period is extrapolated using a steady growth rate specific to the CGU. Cash flow projections during the forecast period for the CGU are based on the estimated growth rates for the relevant CGU during the forecast period. Estimated growth rates were determined based on past performance and the management's expectations for the market developments.

The key assumptions used for the value in use calculations for 2022 are as follows:

	Discount rate	Growth rate
Promethean Group	23.59%	2.0%

Management believes that any reasonably possible change in any of key assumptions would not cause the carrying amount of this CGU to exceed its recoverable amount resulting in impairment as at 31 December 2023 or 2022.

20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023	2022
	RMB million	RMB million
Equity securities listed in Canada (Note a)	**3**	6
Unlisted equity securities in the PRC (Note b)	**42**	50
	45	56

Notes:

(a) The above listed equity investment represents ordinary shares of an entity listed in Toronto Stock Exchange. The investment is not held for trading, instead, it is held for long-term strategic purpose. The directors of the Company have elected to designate this investment in equity instruments at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

(b) The above unlisted equity investments represent the Group's equity interests in private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI as they believe that the investments are not held for trading and these investments are not expected to be sold in the foreseeable future.

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

	2023 RMB million	2022 RMB million
Financial assets at FVTPL:		
– Unlisted funds (Note a)	**248**	252
– Unlisted equity investments (Note b)	**205**	152
– Convertible promissory notes (Note c)	**–**	84
– Listed securities	**38**	–
	491	488
Analysed for financial reporting purpose:		
Current	**38**	84
Non-current	**453**	404
	491	488
Derivative financial instruments (under current liabilities):		
– Unlisted warrants (Note d)	**6**	31
– Convertible and exchangeable option (Note 34)	**–**	–
– Embedded derivatives in Convertible Note (defined in Note 35)	**101**	–
	107	31

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Notes:

(a) The unlisted funds represent a portfolio of investments managed by fund managers. Most of the portfolio assets are being invested in the listed securities in Hong Kong and Mainland China. These investments are not held for trading, instead, they are held for long-term purposes. The Group does not expect to realise the funds within twelve months from the end of the reporting period. Therefore, the unlisted funds are classified as non-current assets.

(b) The unlisted equity investments represent the Group's investments in equity interests in certain private entities, which principally engaged in investments in cryptocurrencies, tokens, blockchain-based assets and other digital assets.

(c) The convertible promissory notes as at 31 December 2022 were issued by a private entity incorporated in the USA, bearing an interest of 6.0% per annum and convertible at the discretion of the Group, in whole or in part, from time to time, into ordinary shares of the issuing entity. The notes matured during the year ended 31 December 2023 without conversion to ordinary shares of the issuing entity. The outstanding balances are converted to deposits paid for investments in preferred shares of the said private entity and disclosed as "Prepayment for investments" in Note 27.

(d) The unlisted warrants are simultaneously issued with the convertible and exchangeable bonds as detailed in Note 34.

22. LOAN RECEIVABLES

	2023 **RMB million**	2022 RMB million
Fixed-rate loan receivables	**69**	–
Variable-rate loan receivables	**22**	12
	91	12
Analysed as:		
Current	**79**	4
Non-current	**12**	8
	91	12

22. LOAN RECEIVABLES (Cont'd)

The effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	2023	2022
Effective interest rates:		
Fixed-rate loan receivables (per annum)	**0.00% - 4.15%**	N/A
Variable-rate loan receivables (per annum)	**2.90% - 5.88%**	2.78% – 5.63%

Included in loan receivables, RMB64 million (2022: Nil) is receivable from an independent third party, is unsecured, interest-free and repayable on demand; RMB22 million (2022: RMB7 million) represents loans to certain key management and staff, which are unsecured, not past due or credit-impaired at the end of the reporting period. The loans are either repayable by instalments until 2028 or 2036 (2022: by instalments until 2023 or 2036) or repayable in whole in 2024 or 2025.

Details of impairment assessment are set out in Note 40.

23. DEFERRED TAXATION

The deferred tax assets and liabilities are presented in the consolidated statement of financial position as below:

	2023	2022
	RMB million	RMB million
Deferred tax assets	**433**	347
Deferred tax liabilities	**(80)**	(80)
	353	267

23. DEFERRED TAXATION (Cont'd)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Intangible assets	Tax losses	Right-of-use assets	Lease liabilities	Others	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2022	(94)	108	–	–	41	55
Adjustments	–	–	(22)	22	–	–
As at 1 January 2022 (restated)	(94)	108	(22)	22	41	55
(Charged) credited to profit or loss	(9)	197	7	(7)	25	213
Exchange adjustments	(6)	3	–	–	2	(1)
At 31 December 2022 (restated)	**(109)**	**308**	**(15)**	**15**	**68**	**267**
Credited (charged) to profit or loss	**46**	**41**	**8**	**(8)**	**(4)**	**83**
Acquisition of subsidiaries	**(10)**	**-**	**-**	**-**	**2**	**(8)**
Exchange adjustments	**(3)**	**15**	**-**	**-**	**(1)**	**11**
At 31 December 2023	**(76)**	**364**	**(7)**	**7**	**65**	**353**

At the end of the reporting period, the Group has taxable temporary differences associated with undistributed earnings of PRC subsidiaries of RMB9,529 million (2022: RMB8,444 million). No deferred tax liability has been recognised for these undistributed earnings because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

23. DEFERRED TAXATION (Cont'd)

A deferred tax asset has been recognised in respect of RMB1,536 million (2022: RMB1,422 million) of the unused tax losses of the Group during the year ended 31 December 2023. The Group has not recognised deferred tax assets arising from tax losses amounting to RMB3,608 million (2022: RMB3,334 million) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. The unrecognised tax losses will be expired as follows, which are five years or ten years from the year in which the loss was originated, to offset against future taxable profits.

	2023	2022
	RMB million	RMB million
Expire in:		
– 2023	**–**	278
– 2024	**371**	371
– 2025	**402**	402
– 2026	**460**	461
– 2027	**481**	488
– 2028	**540**	226
– 2029	**220**	220
– 2030	**310**	313
– 2031	**322**	322
– 2032	**287**	253
– 2033	**215**	–
	3,608	3,334

At the end of the reporting period, the Group has deductible temporary differences of RMB208 million (2022: RMB96 million). The deferred tax asset has been recognised in respect of all such differences of the Group during the year ended 31 December 2023.

Others mainly represented deferred tax assets related to inventories, deferred revenue, accelerated tax depreciation, accrued expenses and other miscellaneous items.

24. PROPERTIES UNDER DEVELOPMENT/PROPERTIES FOR SALE

	2023	2022
	RMB million	RMB million
Properties under development	**70**	343
Properties for sale	**280**	303
	350	646

The Group's properties under development are situated in the Mainland China. All of the properties under development are stated at the lower of cost and net realisable value.

The Group classifies properties under development as current because the Group expects to realise them in its normal operating cycle. At 31 December 2022, properties under development includes an amount of approximately RMB251 million (2023: Nil) which was expected to be realised after more than twelve months from the end of the reporting period. Sales deposits received from purchasers at the end of the reporting period are included in contract liabilities as disclosed in Note 30.

Analysis of leasehold lands:

	2023	2022
	RMB million	RMB million
Carrying amount	**129**	202

The carrying amount of leasehold lands is measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands taking into account the estimated residual values as at 31 December 2023 and 2022.

25. INVENTORIES

	2023 RMB million	2022 RMB million
Raw materials	5	5
Finished goods	400	802
	405	807

26. TRADE RECEIVABLES

	2023 RMB million	2022 RMB million
Trade receivables	743	690
Less: Allowance of credit losses	(41)	(36)
	702	654

As at 1 January 2022, trade receivables from contracts with customers amounted to RMB832 million.

Details of credit period allowed by the Group are set out in Note 5.

26. TRADE RECEIVABLES (Cont'd)

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.

	2023 RMB million	2022 RMB million
Trade debtors		
0 – 30 days	375	334
31 – 60 days	135	183
61 – 90 days	87	66
Over 90 days	105	71
	702	654

As at 31 December 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB154 million (2022: RMB151 million) which are past due as at the reporting date. Out of the past due balances, RMB74 million (2022: RMB51 million) has been past due 90 days or more but are not considered as credit-impaired having regard to the historical repayment from the trade debtors, as well as forward-looking information that is available without undue cost or effort. Accordingly, the corresponding expected credit loss is insignificant. The Group does not hold any collateral over these balances.

Before accepting any new distributor/customer, the Group uses an internal credit assessment policy to assess the potential distributor/customer's credit quality and define credit limits by distributor/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Details of impairment assessment of trade receivables are set out in Note 40.

27. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2023 RMB million	2022 RMB million
Prepayments to suppliers	49	110
Prepayments for rented premises, utilities and server	44	50
Refundable rental and guarantee deposits (Note a)	90	91
Prepayment to/other receivables from agents for acquisition of cryptocurrencies	75	80
Contract assets (Note b)	27	20
Prepayment for convertible and exchangeable bonds interest	9	52
Prepayment for convertible note (defined in Note 35) interest	22	–
Other tax recoverable	79	65
Government grant receivables	63	82
Prepayments for investments (Note c)	246	–
Others	132	93
	836	643
Analysed for financial reporting purpose:		
Non-current	351	94
Current	485	549
	836	643

Details of the impairment assessment of other receivables are set out in Note 40.

Notes:

(a) Included in refundable rental and guarantee deposits as at 31 December 2023 are balances of (i) RMB32 million (2022: RMB32 million) which represents deposits for existing and potential lease contracts paid to a related company, 福州楊振華 851 生物工程技術研究開發有限公司 (Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.) ("Fuzhou 851") and (ii) RMB15 million (2022: RMB25 million) which represents deposit for technical support service paid to 福州天亮網絡技術有限公司 (Fuzhou Tianliang Network Technology Co., Limited).

(b) The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on the provision of mobile solution, products and marketing services and retention receivables on education equipment and related goods. The contract assets are transferred to trade receivables when the rights become unconditional.

(c) Amounts being prepayments are paid for certain investments whose completions are subject to certain terms and conditions as specified in relevant investment agreements. Out of the balance, RMB108 million 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.

28. PLEDGED BANK DEPOSITS/BANK DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS/CASH AND CASH EQUIVALENTS

Pledged bank deposits, bank deposits with original maturity over three months and bank balances carry interest at prevailing banking deposit rates which ranges from 0.001% to 5.0% (2022: 0.001% to 4.490%) per annum.

Details of the impairment assessment of pledged bank deposits, bank deposits with original maturity over three months and bank balances are set out in Note 40.

29. TRADE AND OTHER PAYABLES

	2023	2022
	RMB million	RMB million
Trade payables (Note a)	**499**	680
Accrued staff costs	**361**	358
Government grants (Note b)	**14**	20
Other tax payables	**45**	34
Payables for purchase of property, plant and equipment	**194**	128
Consideration payables	**19**	29
Accrued expenses	**56**	65
Dividend payable	**66**	–
Others (Note c)	**301**	218
	1,555	1,532
Analysed for financial reporting purpose:		
Current	**1,518**	1,513
Non-current	**37**	19
	1,555	1,532

29. 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.

	2023 RMB million	2022 RMB million
0 – 90 days	**223**	301
91 – 180 days	**216**	300
181 – 365 days	**31**	24
Over 365 days	**29**	55
	499	680

(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 recognise in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure.

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

30. CONTRACT LIABILITIES

	2023 **RMB million**	2022 RMB million
Gaming and application services (Note a)	**226**	207
Mynd.ai (Note a)	**258**	190
Property development (Note b)	**7**	9
	491	406
Revenue recognised that was included in the contract liabilities at the beginning of the year	**254**	215

As at 1 January 2022, contract liabilities amounted to RMB357 million. There was no revenue recognised during the year that related to performance obligations that were satisfied in prior periods.

Notes:

(a) The contract liabilities include unutilised game points on online and mobile games, advance payments from customers for contracted education equipment and related goods, advance payments from customers for educational services and advance payments from customers for mobile solution, products and marketing services. The contract liabilities are transferred to revenue when customers control and receive the goods, services and benefits.

(b) The amount represents the pre-sale deposits and advance payment received from customers for property development prior to the respective properties have been completed and delivered to the customers which is a point in time when customers have the ability to direct the use of the properties and obtain substantially all the remaining benefits of the properties. The Group receives a fixed amount of RMB50,000 for each property unit as deposits from customers when they sign the sale and purchase agreement. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the customer obtains control of the completed property.

31. LEASE LIABILITIES

	2023 RMB million	2022 RMB million
Within one year	**76**	67
Within a period of more than one year but not more than two years	**31**	38
Within a period of more than two years but not more than five years	**14**	12
Within a period of more than five years	**–**	–
	121	117
Less: Amount due for settlement with twelve months shown under current liabilities	**(76)**	(67)
Amount due for settlement after twelve months shown under non-current liabilities	**45**	50

The effective interest rate on the Group's lease liabilities was 4.95% (2022: 5.15%) during the year ended 31 December 2023.

32. PROVISIONS

	Warranty
	RMB million
At 1 January 2022	89
Additional provisions	54
Utilisation of provisions	(53)
Exchange adjustments	4
At 31 December 2022	**94**
Additional provisions	**69**
Utilisation of provisions	**(43)**
Exchange adjustments	**7**
At 31 December 2023	**127**

The Group provided warranty on its education equipment sold to its customers. The warranty provision is calculated by estimating the possible failure rates of the Promethean Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period ranges from one to seven years and varies depending on both the product and the country the product is sold to.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

33. BANK BORROWINGS

The carrying amounts of the bank borrowings are repayable based on scheduled repayment dates as follows:

	2023 **RMB million**	2022 RMB million
Within one year	**1,033**	737
Within a period of more than one year but not exceeding two years	**1**	1
Within a period of more than two years but within five years	**–**	1
	1,034	739
Less: Amounts due within one year shown under current liabilities	**(1,033)**	(737)
Amounts shown under non-current liabilities	**1**	2

The exposure of the Group's bank borrowings is as follows:

	2023 **RMB million**	2022 RMB million
Variable-rate borrowings	**272**	376
Fixed-rate borrowings	**762**	363
	1,034	739
Secured	**1,032**	736
Unsecured	**2**	3
	1,034	739

33. BANK BORROWINGS (Cont'd)

The Group's variable-rate borrowings for the year ended 31 December 2023 carry interest at (i) one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.20% to 2.35% per annum, (ii) three-month Bloomberg Short-Term Bank Yield ("BSBY") Rate two business days prior to date of borrowing plus 1.85%, (iii) 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 Group's variable-rate borrowings for the year ended 31 December 2022 carried interest at (i) one-month HIBOR plus 2.20% to 2.35% per annum, (ii) three-month BSBY Rate two business days prior to date of borrowing plus 1.35%, (iii) the USA Prime Rate plus 0.35% or 0.50%, (iv) interest rate of 1.00% per annum or (v) one-year Loan Prime Rate of China less 0.20% to 0.65% per annum.

The range of effective interest rates on the Group's bank borrowings are as follows:

	2023	2022
Variable-rate borrowings	**7.60% to 8.09%**	2.78% to 7.85%
Fixed-rate borrowings	**1.00% to 3.75%**	1.00% to 3.50%

As at 31 December 2023, the borrowings were secured by pledge of certain properties, right-of-use assets and pledged bank deposits of the Group as set out in Note 41, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries (2022: pledge of certain properties and right-of-use assets of the Group as set out in Note 41, personal guarantee provided by a director of the Company, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries).

34. 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"). Simultaneously, the Company issued unlisted warrants to Nurture Education in March 2020. The warrants shall entitle Nurture Education to subscribe for ordinary shares of the Company. The convertible and exchangeable bonds bear interest accruing at a rate of 5% per annum on the aggregate principal amount of the convertible and exchangeable bonds and will be due on the fifth anniversary from the bond issue date ("CEB Maturity Date"). The convertible and exchangeable bonds are denominated in USD.

Convertible and exchangeable option

The convertible and exchangeable bonds are exercisable at the option of bondholders, in whole or in part and can be exchangeable for ordinary shares of Mynd.ai at an initial exchange price of USD1.7588 per ordinary share at any time and from time to time during the exchange period (2022: either (i) convertible into ordinary shares of Best Assistant at an initial conversion price of USD0.5367 per conversion share at any time and from time to time during the period from the conversion period; or (ii) exchangeable for ordinary shares of Promethean, a wholly-owned subsidiary of Best Assistant and an indirect non-wholly owned subsidiary of the Company, at an initial exchange price of USD2.2146 per exchange share at any time and from time to time during the exchange period, in the event that Promethean pursues a qualified initial public offering which refers to a firmly underwritten initial public offering of ordinary shares of Promethean on an internationally recognised exchange with a minimum net proceeds and market capitalisation as set out in the terms and conditions of the convertible and exchangeable bonds). At initial recognition, the convertible and exchangeable option was classified as derivative financial instrument. 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 2022.

Warrants

Simultaneously with the issue of the convertible and exchangeable bonds, the Company issued to the Nurture Education the warrants with a subscription price of HKD18.8698 per share. The warrants are allotted to subscribe at any time and from time to time during the issue date to the CEB Maturity Date for up to 11,502,220 shares. At initial recognition, the warrants were classified as derivative financial instrument at a fair value of RMB87 million.

34. CONVERTIBLE AND EXCHANGEABLE BONDS (Cont'd)

Redemption

Best Assistant shall redeem the convertible and exchangeable bonds, upon the request of Nurture Education at any time on or after the occurrence of an early redemption event, or if not early redeemed, converted, exchanged or purchased and cancelled, on the CEB Maturity Date, at an amount that would provide the bondholders with an amount equal to the redemption amount (i.e. an amount that would provide the bondholders an internal rate of return on the principal amount of the convertible and exchangeable bonds of 15% per annum, inclusive of all interest received on the principal amount of the convertible and exchangeable bonds). The early redemption event is contingent upon the occurrence of any of (i) change of control of Best Assistant and its subsidiaries (collectively "Best Assistant Group"); or (ii) sale, transfer or other disposition of all or substantially all of the assets or intellectual property of any Best Assistant Group; or (iii) liquidity event; or (iv) an initial public offering of ordinary shares of Best Assistant Group on an internationally recognised exchange (2022: (i) the third anniversary from the bond issue date; or (ii) change of control of Best Assistant or Promethean; or (iii) a liquidity event). The early redemption option is considered as closely related to the host debt and is therefore accounted for as part of the amortised cost accounting of the host debt contract.

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

	2023	2022
	RMB million	RMB million
At 1 January	**1,333**	1,085
Redemption (Note)	**(1,254)**	–
Interest accrued	**211**	194
Settlement of interest	**(63)**	(50)
Exchange adjustments	**29**	104
	256	1,333
Less: Interest payable within one year (shown under current liabilities)	**(3)**	(16)
Amount shown under non-current liabilities	**253**	1,317

Note: In the current year, out of the principal amount of USD150 million for the convertible and exchangeable bonds, Best Assistant redeemed a principal amount of USD125 million (equivalent to RMB889 million) at an aggregate consideration of USD198 million (equivalent to RMB1,410 million). Aggregate carrying amount of redeemed portion is approximately USD176 million (equivalent to RMB1,254 million). As a result, loss of redemption of the convertible and exchangeable bonds amounting to USD22 million (equivalent to RMB156 million) has been recognised in profit or loss during the year ended 31 December 2023. During the year ended 31 December 2023, total cash outflows for the redemption payment amounted to approximately USD127 million (equivalent to RMB903 million).

As set out in Note 35, Nurture Education subscribed for a senior secured convertible note issued by Mynd.ai with an aggregate principal amount of USD65 million (equivalent to RMB461 million) on 13 December 2023. As agreed, principal amount of the senior secured convertible note has been deducted from the redemption amount of the convertible and exchangeable bonds issued by Best Assistant as set out above.

35. CONVERTIBLE NOTE

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 (Note 21). The fair value of the derivative financial instrument was RMB104 million and RMB101 million at initial recognition and at 31 December 2023, respectively.

35. CONVERTIBLE NOTE (Cont'd)

The Convertible Note contains certain representations, warranties, events of default and negative covenants that limit, without the consent of the holder(s) of the Convertible Note, Mynd.ai's ability, among other things, to incur additional indebtedness, sell or acquire assets, undertake capital expenditures, and enter into certain transactions with third parties. As of 31 December 2023, the management of the Group believes that Mynd.ai was in compliance with all such covenants.

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 year ended 31 December 2023 is set out as below:

	RMB million
Issue of Convertible Note	357
Interest accrued	1
Exchange adjustments	(1)
	357
Less: Interest payable within one year (shown under current liabilities)	(1)
Amount shown under non-current liabilities	356

36. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, Best Assistant issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD53 million (equivalent to RMB322 million) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 7.89% of the issued share capital of the Company), Vertex Legacy Continuation Fund Pte Ltd., Hong Kong Alpha Group Limited, Catchy Holdings Limited, DJM (in which Dr. Liu Dejian, executive director and beneficial owner of the Company, owns 100% equity interest therein), Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company. The Series A convertible preferred shares are denominated in USD.

36. CONVERTIBLE PREFERRED SHARES (Cont'd)

On 2 May 2018, Best Assistant issued 112,560,245 Series B convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD123 million (equivalent to RMB781 million) to Fortis Advisors LLC as a consideration to acquire Edmodo, LLC (formerly known as "Edmodo Inc."), an indirect non-wholly owned subsidiary of the Company. The Series B convertible preferred shares are denominated in USD.

Conversion

The Series A and Series B convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of Best Assistant at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to certain adjustments (such as proportional adjustment and anti-dilution adjustment).

The Series A and Series B convertible preferred shares shall be automatically converted into ordinary shares upon occurrence of an underwritten public offering of the ordinary shares of Best Assistant wherein the pre-offering market capitalisation of Best Assistant is no less than USD1,000 million and net proceeds to Best Assistant are in excess of USD100 million.

Dividends

The holders of the outstanding Series A and Series B convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of Best Assistant, out of the funds lawfully available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares or other equity securities. The right to receive dividends on the Series A and Series B convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

36. CONVERTIBLE PREFERRED SHARES (Cont'd)

Liquidation

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of Best Assistant. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of the Series A convertible preferred shares, plus all declared but unpaid dividends (the "Series A" preference amount).

The holders of the Series B convertible preferred shares shall be entitled to receive for each of the outstanding Series B convertible preferred shares held, an amount equal to the Series B adjusted price, plus all declared but unpaid dividends (the "Series B" preference amount). The Series B adjusted price means, at any given time, the Series B issue price by a fraction, (i) the numerator of which is equal to the original Series B value minus the aggregate indemnification claim amount, and (ii) the denominator of which is the original Series B value; provided that the Series B adjusted price will not be reduced below USD0.001 per share.

If the assets and funds thus distributed amount the preferred shareholders shall be insufficient for the full payment of the Series A and Series B preference amount to all the preferred shareholders, then the entire assets and funds of Best Assistant legally available for distribution shall be distributed rateably among the preferred shareholders in proportion to the aggregate preference amount each such preferred shareholder is otherwise entitled to receive.

The financial liability component of the Series A and Series B convertible preferred shares is classified as financial liabilities at FVTPL and is measured at fair value on initial recognition. At the end of each reporting period subsequent to initial recognition, the financial liability component of Series A and Series B convertible preferred shares is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

As at 31 December 2022, the fair value of the convertible preferred shares is nil. The Series A and Series B convertible preferred shares have been fully converted into ordinary shares of Best Assistant during the year ended 31 December 2023.

37. SHARE CAPITAL OF THE COMPANY

	Number of shares	Nominal value	
		USD	RMB million
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2022, 31 December 2022 and 31 December 2023	**1,000,000,000**	**10,000,000**	**76**
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2022	545,245,308	5,452,453	40
Shares issued upon exercise of share options (Note a)	19,825	198	– #
Repurchase and cancellation of shares (Note b)	(4,521,500)	(45,215)	– #
At 31 December 2022	**540,743,633**	**5,407,436**	**40**
Shares issued upon exercise of share options (Note a)	**363,400**	**3,634**	**– #**
Repurchase and cancellation of shares (Note b)	**(9,844,500)**	**(98,445)**	**(1)**
At 31 December 2023	**531,262,533**	**5,312,625**	**39**

less than RMB1 million

Notes:

(a) During the year ended 31 December 2023, 363,400 (2022: 19,825) share options were exercised and as a result the same number of ordinary shares of the Company were issued. RMB7 million (2022: Nil) was recorded as share premium while the amount recorded as share capital is insignificant.

(b) During the years ended 31 December 2023 and 2022, the Company repurchased its own shares through purchases on the Stock Exchange.

38. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The Company's share option scheme (the "Old Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The Old Scheme has expired on 12 June 2018 and a new share option scheme (the "New Scheme") was approved and adopted by the shareholders at the annual general meeting of the Company held on 24 May 2018. Subject to early termination, the Old Scheme and the New Scheme shall be valid and effective for a period of 10 years from 12 June 2008 and 24 May 2018, respectively. The purpose of the Old Scheme and the New Scheme is to provide the eligible participants ("Eligible Participants") as defined in the Old Scheme and the New Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible Participants of the Old Scheme and the New Scheme include employees, executives and officers of the members of the Group (including executive and non-executive directors of the members of the Group) and business consultants, agents and legal and financial advisers to the members of the Group whom the board of directors considers, in its sole discretion, will contribute or have contributed to the members of the Group.

At 31 December 2023, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme and the New Scheme were 300,000 and 5,300,000 respectively (31 December 2022: 1,223,000 and 5,300,000 respectively), representing 0.06% and 1.00% respectively (31 December 2022: 0.23% and 0.98% respectively) of the shares of the Company in issue at that date. As at 31 December 2023, the number of securities of the Company available for issue under the New Scheme was 47,041,969 (31 December 2022: 47,041,969), representing approximately 8.85% (31 December 2022: 8.70%) of the issued share capital of the Company as at 31 December 2023. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options) in any twelve months period shall not exceed 1% of the total number of shares in issue as at the date of grant. Where any further grant of options to an Eligible Participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve months period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any twelve months period, are subject to shareholders' approval in advance in a general meeting.

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

(a) Equity-settled share option scheme (Cont'd)

Options granted must be taken up within 28 days from the date of the offer, upon payment of a nominal consideration of HKD1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. There is no general requirement that an option must be held for any minimum period before it can be exercised but the board of directors of the Company is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

Details of specific categories of options are as follows:

Batch 1:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2023	Outstanding at 31 December 2022
23 April 2012	23 April 2012 – 22 April 2013	23 April 2013 – 22 April 2022	–	–
23 April 2012	23 April 2012 – 22 April 2014	23 April 2014 – 22 April 2022	–	–
23 April 2012	23 April 2012 – 22 April 2015	23 April 2015 – 22 April 2022	–	–
23 April 2012	23 April 2012 – 22 April 2016	23 April 2016 – 22 April 2022	–	–
23 April 2012	23 April 2012 – 22 April 2017	23 April 2017 – 22 April 2022	–	–
			–	–

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

(a) Equity-settled share option scheme (Cont'd)

Batch 2:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2023	Outstanding at 31 December 2022
12 September 2012	12 September 2012 – 11 September 2013	12 September 2013 – 11 September 2022	-	–
12 September 2012	12 September 2012 – 11 September 2014	12 September 2014 – 11 September 2022	-	–
12 September 2012	12 September 2012 – 11 September 2015	12 September 2015 – 11 September 2022	-	–
12 September 2012	12 September 2012 – 11 September 2016	12 September 2016 – 11 September 2022	-	–
12 September 2012	12 September 2012 – 11 September 2017	12 September 2017 – 11 September 2022	-	–
			-	–

Batch 3:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2023	Outstanding at 31 December 2022
16 January 2013	16 January 2013 – 15 January 2014	16 January 2014 – 15 January 2023	-	3,350
16 January 2013	16 January 2013 – 15 January 2015	16 January 2015 – 15 January 2023	-	5,025
16 January 2013	16 January 2013 – 15 January 2016	16 January 2016 – 15 January 2023	-	6,700
16 January 2013	16 January 2013 – 15 January 2017	16 January 2017 – 15 January 2023	-	8,875
16 January 2013	16 January 2013 – 15 January 2018	16 January 2018 – 15 January 2023	-	24,550
			-	48,500

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

(a) Equity-settled share option scheme (Cont'd)

Batch 4:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2023	Outstanding at 31 December 2022
4 December 2013	4 December 2013 – 3 December 2014	4 December 2014 – 3 December 2023	-	159,000
4 December 2013	4 December 2013 – 3 December 2015	4 December 2015 – 3 December 2023	-	238,500
4 December 2013	4 December 2013 – 3 December 2016	4 December 2016 – 3 December 2023	-	477,000
			-	874,500

Batch 5:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2023	Outstanding at 31 December 2022
31 March 2017	31 March 2017 – 30 March 2018	31 March 2018 – 30 March 2027	75,000	75,000
31 March 2017	31 March 2017 – 30 March 2019	31 March 2019 – 30 March 2027	75,000	75,000
31 March 2017	31 March 2017 – 30 March 2020	31 March 2020 – 30 March 2027	150,000	150,000
			300,000	300,000

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

(a) Equity-settled share option scheme (Cont'd)

Batch 6:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2023	Outstanding at 31 December 2022
24 January 2020	24 January 2020 – 23 January 2021	24 January 2021 – 23 January 2030	1,349,000	1,349,000
24 January 2020	24 January 2020 – 23 January 2022	24 January 2022 – 23 January 2030	1,349,000	1,349,000
24 January 2020	24 January 2020 – 23 January 2023	24 January 2023 – 23 January 2030	1,352,000	1,352,000
24 January 2020	24 January 2020 – 23 January 2024	24 January 2024 – 23 January 2030	1,250,000	1,250,000
			5,300,000	5,300,000

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

(a) Equity-settled share option scheme (Cont'd)

The following table discloses the movement of the share options during the year ended 31 December 2023:

Option batch	Exercise price HKD	Outstanding at 1 January 2023	Exercised during year	Forfeited/ lapsed during year	Outstanding at 31 December 2023
Batch 1	5.74	-	-	-	-
Batch 2	7.20	-	-	-	-
Batch 3	11.16	48,500	(45,400)	(3,100)	-
Batch 4	15.72	874,500	(318,000)	(556,500)	-
Batch 5	23.65	300,000	-	-	300,000
Batch 6	21.07	5,300,000	-	-	5,300,000
		6,523,000	(363,400)	(559,600)	5,600,000
Exercisable at the end of the year 2023					4,350,000
Weighted average exercise price		HKD20.40			HKD21.21

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

(a) Equity-settled share option scheme (Cont'd)

The following table discloses the movement of the share options during the year ended 31 December 2022:

Option batch	Exercise price HKD	Outstanding at 1 January 2022	Exercised during year	Forfeited/ lapsed during year	Outstanding at 31 December 2022
Batch 1	5.74	85,667	(19,825)	(65,842)	–
Batch 2	7.20	50,250	–	(50,250)	–
Batch 3	11.16	48,500	–	–	48,500
Batch 4	15.72	874,500	–	–	874,500
Batch 5	23.65	300,000	–	–	300,000
Batch 6	21.07	5,300,000	–	–	5,300,000
		6,658,917	(19,825)	(116,092)	6,523,000
Exercisable at the end of the year 2022					3,921,000
Weighted average exercise price		HKD20.11			HKD20.40

The weighted average remaining contractual lives of the Company's share options as at 31 December 2023 is 5.92 years (2022: 6.06 years). The exercise prices of the Company's share options outstanding as at 31 December 2023 range from HKD21.07 to HKD23.65 (2022: HKD11.16 to HKD23.65).

The Group recognised the total expense of RMB3 million for the year ended 31 December 2023 (2022: RMB7 million) in relation to share options granted by the Company.

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

(b) Share award scheme by the Company

Pursuant to a circular to shareholders of the Company dated 3 September 2008, the Company introduced a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The selected employees are not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

The aggregate number of the Award is not permitted to exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The eligibility of employees to participate in the Share Award Scheme and number of shares which are the subject of each Award at each date of grant to a selected employee in accordance with the Share Award Scheme shall be determined at the absolute discretion of the committee, which comprised the directors of the Company duly appointed by the board of directors to administer the Share Award Scheme (the "Committee"), which shall take into consideration various factors including the general financial condition of the Group, the rank and performance of the relevant employee and such other general criteria as the Committee may consider appropriate as well as other limitations set forth under the Listing Rules and those rules of the Share Award Scheme.

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

(b) Share award scheme by the Company (Cont'd)

In determining the number of shares to be awarded each year, the Committee shall have reference to the financial performance of the Group as reflected in the profit before taxation of the financial year.

The grant of the Award to the selected employee shall be accepted by the selected employee within 28 days from the date of offer. The selected employee may accept or refuse the whole but not part of a grant of the Award. If the grant of the Award is not accepted by the selected employee within 28 days from the date of offer, the offer shall upon the expiry of the 28 days period automatically lapse and shall be null and void.

Performance conditions (the "Performance Conditions") refers to the condition or conditions imposed by the Company on the selected employee's employment with the Company which must be fulfilled or satisfied by the selected employee prior to his eligibility for the Award. Performance period refers to the period of a participant employment with the Group which is used to assess the selected employee's work performance for the purpose of determining the grant of the selected employee's award.

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees after rendering services for certain period. Each employee needs to render the agreed period of service in order to be entitled to the shares granted.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of RMB5 million for the year ended 31 December 2023 (2022: reversal of expenses of RMB1 million) in relation to share awards.

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

(b) Share award scheme by the Company (Cont'd)

Movements in the share awards granted during the years ended 31 December 2023 and 2022 are as follows:

Year ended 31 December 2023

Name of category of participant	Date of grant	Outstanding at 1 January 2023	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2023
Director	27 July 2023	-	240,000	(240,000)	-	-
Director	27 October 2023	-	120,000	(120,000)	-	-
		-	360,000	(360,000)	-	-

Year ended 31 December 2022

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

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

(c) Share awarded by a subsidiary of the Company

On 7 August 2012, Best Assistant adopted a share award scheme as amended on 13 February 2015 and 5 August 2022 (the "Best Assistant Share Award Scheme") in which selected participants include senior management employees of Best Assistant Group, consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries (excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant.

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

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

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

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

(c) Share awarded by a subsidiary of the Company (Cont'd)

Movements in the share awards granted by Best Assistant during the years ended 31 December 2023 and 2022 are as follows:

Name of category of participant	Date of grant	Outstanding at 1 January 2022	Awards vested during year	Outstanding at 31 December 2022	Granted during year	Awards vested during year	Outstanding at 31 December 2023
Other employees (Note a)	1 July 2018	120,000	(120,000)	-	-	-	-
Other employees (Note a)	1 July 2019	160,000	(80,000)	80,000	-	(80,000)	-
Dr. Leung Lim Kin, Simon (Note b)	12 December 2023	-	-	-	123,409,543	(123,409,543)	-
Other employees (Note b)	12 December 2023	-	-	-	40,056,514	(40,056,514)	-
		280,000	(200,000)	80,000	163,466,057	(163,546,057)	-

As set out in Note 45, the Group entered into a merger agreement to acquire the GEHI (as defined in Note 45) during the year ended 31 December 2023. Prior to the merger, Best Assistant granted a total of 163,466,057 awards of ordinary shares of Best Assistant (the "Awarded Shares") to certain grantees pursuant to Best Assistant Share Award Scheme, among which, (i) 123,409,543 Awarded Shares were granted to Dr. Leung Lim Kin, Simon, an executive Director and the vice chairman of the Company, and (ii) 40,056,514 Awarded Shares were granted to other grantees who are the employees of the Group. In accordance with the terms of the Best Assistant Share Award Scheme, the Awarded Shares were vested in the grantees at no cost immediately upon the grant thereof and were satisfied by issuance of new ordinary shares by Best Assistant. As at 31 December 2023, all awarded shares (164,546,057 awarded shares) under the Best Assistant Share Award Scheme were granted and vested.

Notes:

(a) Fair value of the share awards at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant dates. The Group recognised the total expenses of less than RMB1 million during the year ended 31 December 2023 (2022: less than RMB1 million) in relation to the Best Assistant Share Award Scheme.

(b) Fair value of the Awarded Shares at the grant date is estimated based on Mynd.ai's publicly available market price as a consideration that the Awarded Shares of Best Assistant granted immediately prior to completion of the Merger (as defined in Note 45) were fully converted to ordinary shares of Mynd.ai upon completion of the Merger (as defined in Note 45). The Group recognised the total expenses of RMB96 million during the year ended 31 December 2023 in relation to the Best Assistant Share Award Scheme.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes bank borrowings (Note 33), net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. The Group will balance its overall capital structure through the payment of dividends as well as issue new shares or return capital to owners.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 RMB million	2022 RMB million
Financial assets		
Amortised cost	3,972	4,882
Equity instruments at FVTOCI	45	56
Financial assets at FVTPL	491	488
	4,508	5,426
Financial liabilities		
Amortised cost	2,711	3,125
Convertible preferred shares at FVTPL	–	–
Derivative financial instruments	107	31
	2,818	3,156
Lease liabilities	121	117

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, financial assets at FVTPL, amounts due from joint ventures, loan receivables, trade receivables, other receivables, refundable rental deposits, pledged bank deposits, bank deposits with original maturity over three months, cash and cash equivalents, trade and other payables, bank borrowings, lease liabilities, convertible preferred shares, derivative financial instruments, convertible and exchangeable bonds and convertible note. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(I) Market risk

(i) Currency risk

The Group operates mainly in the PRC, the USA and the UK. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB, USD and Great Britain Pound ("GBP"). However, the Group also has operations in Hong Kong, Europe, Singapore and Poland and the business transactions conducted in these areas during the year were mainly denominated and settled in HKD, European dollar ("EURO"), Singapore dollar ("SGD") and Polish Zloty ("PLN") respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(I) Market risk (Cont'd)

(i) Currency risk (Cont'd)

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities (including loan receivables, trade receivables, other receivables, pledged bank deposits, bank deposits with original maturity over three months, cash and cash equivalents, trade and other payables, lease liabilities and bank borrowings) at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2023	2022	**2023**	2022
	RMB million	RMB million	**RMB million**	RMB million
HKD	**120**	52	**76**	45
USD	**928**	1,169	**261**	1,334
EURO	**109**	60	**1**	1
SGD	**53**	N/A	**78**	N/A
PLN	**2**	1	**11**	23

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(I) Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD, USD, EURO, SGD or PLN. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (a decrease) in post-tax profit where RMB strengthen 5% against relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit.

	2023 **RMB million**	2022 RMB million
Post-tax profit		
HKD	**(2)**	–
USD	**(25)**	6
EURO	**(4)**	(2)
SGD	**1**	–
PLN	**–**	1

(ii) Interest rate risk

The interest income is derived from the Group's pledged bank deposits, bank deposits with original maturity over three months and bank balances that carry interest at the respective banking deposit rate of the banks and loan receivables.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(I) Market risk (Cont'd)

(ii) Interest rate risk (Cont'd)

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables (Note 22), lease liabilities (Note 31), bank borrowings (Note 33), convertible and exchangeable bonds (Note 34) and convertible note (Note 35).

The Group is exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits, bank deposits with original maturity over three months and bank balances (Note 28), variable-rate loan receivables (Note 22) and variable-rate bank borrowings (Note 33) carried at prevailing bank borrowing interest rate. The cash flow interest rate risk is in relation to the fluctuation of HIBOR, BSBY Rate, USA Prime Rate and Loan Prime Rate of China (collectively as "Variable Borrowing Rates") arising from the Group's bank borrowings. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings at the end of the reporting period. The analysis is prepared assuming the variable-rate borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2022: 50 basis points) increase or decrease in Variable Borrowing Rates is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2022: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2023 would decrease/increase by RMB1 million (2022: RMB1 million).

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Credit risk and impairment assessment

As at 31 December 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the 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 ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for credit-impaired debtors and collectively for others using a provision matrix with appropriate groupings.

The credit risk on 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 are state-owned banks located in the PRC. In this regard, the directors of the Company consider that the ECL on these balances is insignificant.

The Group regularly monitors the business performance of the joint ventures. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2023 and 2022, the Group assessed 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.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Credit risk and impairment assessment (Cont'd)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/other items
Low risk	The counterpart y has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Credit risk and impairment assessment (Cont'd)

The tables below detail the credit risk exposures of the Group's trade receivables, other receivables, loan receivables, amounts due from joint ventures, pledged bank deposits, bank deposits with original maturity over three months, bank balances and contract assets which are subject to ECL assessment:

Financial assets at amortised cost

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	2023 Gross carrying amount		2022 Gross carrying amount	
					RMB million	RMB million	RMB million	RMB million
Loan receivables	22	N/A	(Note 1)	12m ECL		91		12
Trade receivables	26	N/A	(Note 2)	Lifetime ECL (provision matrix)	719		668	
			Loss	Lifetime ECL (credit-impaired)	24	743	22	690
Contract assets	27	N/A	(Note 2)	Lifetime ECL (provision matrix)		27		20
Other receivables	27	N/A	(Note 1)	12m ECL		288		301
Amounts due from joint ventures		N/A	(Note 1)	12m ECL		7		5
Pledged bank deposits	28	IG*	N/A	12m ECL		315		1
Bank deposits with original maturity over three months	28	IG*	N/A	12m ECL		329		207
Bank balances	28	IG*	N/A	12m ECL		2,241		3,701

* Investment Grade – The Standard & Poor's rating of the Group's significant bank accounts.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Credit risk and impairment assessment (Cont'd)

Financial assets at amortised cost (Cont'd)

Notes:

1. In determining the ECL for loan receivables, other receivables and amounts due from joint ventures, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate. The Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in these Group's outstanding balances is insignificant. Accordingly, no loss allowance on ECL was provided for these assets.

2. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired debtors, the Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating in the classes of low risk, watch list or doubtful.

Provision matrix for trade receivables and contract assets – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers on trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2023 within lifetime ECL. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2023 within lifetime ECL. Trade receivables with credit-impaired with gross carrying amount of RMB24 million (2022: RMB22 million) as at 31 December 2023 were assessed individually. As disclosed in Note 26, out of the past due balances, RMB74 million (2022: RMB51 million) has been past due 90 days or more and is not considered as credit-impaired and considered as recoverable due to long term and on-going relationship with good repayment record from these customers based on historical experience.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Credit risk and impairment assessment (Cont'd)

Financial assets at amortised cost (Cont'd)

Provision matrix for trade receivables and contract assets – internal credit rating (Cont'd)

	2023		2022	
	Average loss rate	**Trade receivables RMB million**	Average loss rate	Trade receivables RMB million
Low risk	**0.23%**	**566**	0.25%	517
Watch list	**0.40%**	**97**	0.38%	101
Doubtful	**27.84%**	**56**	24.04%	50
		719		668

	2023		2022	
	Average loss rate	**Contract assets RMB million**	Average loss rate	Contract assets RMB million
Low risk	**1.26%**	**27**	1.11%	20

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Credit risk and impairment assessment (Cont'd)

Financial assets at amortised cost (Cont'd)

Provision matrix for trade receivables and contract assets – internal credit rating (Cont'd)

The management of the Group assessed the expected loss on trade receivables by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment both the current as well as the forecast direction of conditions at the reporting date. The directors of the Company are of the opinion that trade receivables with gross carrying amount of RMB719 million (2022: RMB668 million) are not credit-impaired, as for they are still considered fully recoverable due to long term/ on-going relationship and good repayment record from these customers. Accordingly, RMB17 million (2022: RMB14 million) loss allowance on ECL for trade receivables based on provision matrix is recognised as at 31 December 2023. However, gross carrying amount amounted of RMB24 million (2022: RMB22 million) of the balance of trade receivables are considered as credit-impaired as for there is evidence indicating the asset is credit-impaired as at 31 December 2023.

No loss allowance on ECL for contract assets based on provision matrix is recognised during the years ended 31 December 2023 and 2022 as the amount is considered as insignificant.

During the year ended 31 December 2023, the Group provides for RMB2 million (2022: Nil) impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of RMB1 million (2022: RMB11 million) were made on credit-impaired debtors.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Credit risk and impairment assessment (Cont'd)

Financial assets at amortised cost (Cont'd)

Provision matrix for trade receivables and contract assets – internal credit rating (Cont'd)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables.

	Lifetime ECL (not credit-impaired) RMB million	**Lifetime ECL (credit-impaired)** RMB million	**Total** RMB million
As at 1 January 2022	13	13	26
Impairment losses recognised, net of reversal	–	11	11
Impairment written off	–	(3)	(3)
Exchange adjustments	1	1	2
As at 31 December 2022	**14**	**22**	**36**
Impairment losses recognised, net of reversal	**2**	**1**	**3**
Exchange adjustments	**1**	**1**	**2**
As at 31 December 2023	**17**	**24**	**41**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, or when the trade receivables are over two years past due, whichever occurs earlier.

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating-rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year RMB million	Over 1 year RMB million	Total undiscounted cash flows RMB million	Carrying amount RMB million
2023					
Trade and other payables	–	969	30	999	999
Bank borrowings					
– variable rate	3.63	275	–	275	272
– fixed rate	3.22	790	–	790	762
Convertible and exchangeable bonds – debt component	16.62	3	295	298	256
Convertible note – debt component	15.80	1	588	589	357
Lease liabilities	4.95	80	48	128	121
Dividend payable	–	66	–	66	66
		2,184	961	3,145	2,833

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

	Weighted average interest rate %	On demand or less than 1 year RMB million	Over 1 year RMB million	Total undiscounted cash flows RMB million	Carrying amount RMB million
2022					
Trade and other payables	–	1,046	7	1,053	1,053
Bank borrowings					
– variable rate	6.62	389	–	389	376
– fixed rate	3.15	368	2	370	363
Convertible and exchangeable bonds – debt component	16.62	–	1,737	1,737	1,333
Lease liabilities	5.15	71	53	124	117
		1,874	1,799	3,673	3,242

Bank borrowings with a repayable on demand clause are included in the "on demand or less than 1 year" band in the above maturity analysis. As at 31 December 2023, the aggregate carrying amounts of these bank borrowings amounted to RMB45 million (2022: RMB41 million). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate payment. The directors of the Company believe that such bank borrowings will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

40. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

(III) Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

Maturity Analysis – Bank borrowings with a repayable on demand clause based on scheduled repayments.

	Less than 1 year RMB million	Total undiscounted cash flows RMB million	Carrying amount RMB million
31 December 2023	**45**	**45**	**45**
31 December 2022	41	41	41

(c) Fair value measurements of financial instruments

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

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

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

40. FINANCIAL INSTRUMENTS (Cont'd)

(c) Fair value measurements of financial instruments (Cont'd)

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

Financial assets/ financial liabilities	Fair value as at 31 December 2023 RMB million	Fair value as at 31 December 2022 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets						
Equity instrument at FVTOCI – Listed equity securities	3	6	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instrument at FVTOCI – Unlisted equity securities	42	50	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate discount rate.	Discount rate of 14.83% (2022:12.84%).	The higher the discount rate, the lower the fair value.
Financial assets at FVTPL – Listed equity securities	38	–	Level 1	Quoted bid prices in an active market.	N/A	N/A
Financial assets at FVTPL – Unlisted funds	248	252	Level 2	Price provided by the financial institution with reference to underlying investment portfolios which have observable quoted price in active markets.	N/A	N/A
Financial assets at FVTPL – Unlisted equity investments	205	152	Level 3	Price provided by the general partner with reference to underlying investment portfolios.	Discount for lack of marketability used in valuation.	The higher the discount for lack of marketability used in valuation, the lower the fair value.
Financial assets at FVTPL – Convertible promissory notes	-	84	Level 3	Discounted cash flow method – cash flows discounted at unobservable yield curve reflecting credit risk of counterparties.	Discount rate of 18.88% for 2022.	The higher the discount rate, the lower the fair value.

40. FINANCIAL INSTRUMENTS (Cont'd)

(c) Fair value measurements of financial instruments (Cont'd)

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

Financial assets/ financial liabilities	Fair value as at 31 December 2023 RMB million	31 December 2022 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial liabilities						
Derivative financial instruments – Convertible and exchangeable option	-	–	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 59.56% (2022: 53.64%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Derivative financial instruments – Unlisted warrants	6	31	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 42.18% (2022: 41.33%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Convertible preferred shares	-	–	Level 3	Black-Scholes pricing model using key input: expected volatility.	Volatility 53.26% for 2022 is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.
Derivative financial instruments – Convertible Note	101	–	Level 3	Binomial valuation model using key input: expected volatility.	Volatility 56.0% (2022: N/A) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the higher the fair value.

There is no transfer between Level 1, Level 2 and Level 3 during both years.

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

40. FINANCIAL INSTRUMENTS (Cont'd)

(c) Fair value measurements of financial instruments (Cont'd)

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

Reconciliation of Level 3 fair value measurements

Reconciliation of Level 3 fair value measurements of financial assets

	Equity instruments at FVTOCI	Financial assets at FVTPL
	RMB million	RMB million
At 1 January 2022	–	2
Additions	50	256
Fair value changes	–	(32)
Exchange adjustments	–	10
At 31 December 2022	**50**	**236**
Additions	**10**	**32**
Fair value changes	**(18)**	**37**
Reallocation	**–**	**(102)**
Service charge	**–**	**(2)**
Exchange adjustments	**–**	**4**
At 31 December 2023	**42**	**205**

Of the total gains or losses for the year included in profit or loss, fair value gain of RMB37 million (2022: fair value loss of RMB32 million) relates to financial assets at FVTPL 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".

40. FINANCIAL INSTRUMENTS (Cont'd)

(c) Fair value measurements of financial instruments (Cont'd)

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

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

Reconciliation of Level 3 fair value measurements of financial liabilities

	Derivative financial instruments
	RMB million
At 1 January 2022	43
Fair value changes	(15)
Exchange adjustments	3
At 31 December 2022	**31**
Additions	**104**
Fair value changes	**(28)**
Exchange adjustments	**–**
At 31 December 2023	**107**

Of the total gains or losses for the year included in profit or loss, fair value gain of RMB28 million (2022: RMB15 million) relates to derivative financial instruments held at the end of the current reporting period. Fair value gains or losses on derivative financial instruments are included in "fair value change on derivative financial instruments".

(II) Fair value of financial instruments that are recorded at amortised cost

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

41. PLEDGE OF OR RESTRICTIONS ON ASSETS

At the end of the reporting period, the carrying amounts of the assets pledged by the Group to secure the bank borrowings and credit card facilities granted to the Group as set out in Notes 28 and 33 are as follows:

	2023	2022
	RMB million	RMB million
Property, plant and equipment	**889**	476
Right-of-use assets	**61**	31
Pledged bank deposits	**315**	1
	1,265	508

In addition, restrictions on assets of the Group are as follows:

Lease liabilities of RMB121 million (2022: RMB117 million) are recognised with related right-of-use assets of RMB320 million (2022: RMB348 million) as at 31 December 2023. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

42. RETIREMENT BENEFITS PLANS

Defined contribution plan

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,500 per person per month to the scheme, whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2023 made by the Group amounted to RMB169 million (2022: RMB145 million).

43. RELATED PARTY DISCLOSURES

The Group is controlled by the Controlling Shareholders, Dr. Liu Dejian and Mr. Liu Luyuan, who have entered into 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 year 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.
雲啟智慧科技有限公司 ("iCloud Wisdom")	iCloud Wisdom is an associate of the Group which the Group holds 40% of the issued share capital in this entity.
福建省國騰信息科技有限公司 ("Guoteng")	Guoteng is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.

43. RELATED PARTY DISCLOSURES (Cont'd)

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

Other than as disclosed elsewhere in these consolidated financial statements, the Group had the following significant related party transactions during the year with certain companies in which some directors and shareholders of the Company can exercise significant influence or control.

Nature of transactions	**2023** **RMB million**	2022 RMB million
Goods sold to iCloud Wisdom	**–**	3
Service revenue from iCloud Wisdom	**1**	2
Service revenue from Guoteng	**2**	3
Technical service fee paid to Guoteng	**(1)**	–
Amounts due from joint ventures (Note)	**7**	5

Saved as disclosed above, the Group had a continuing connected transaction, which was service fee paid to Fuzhou 851 of RMB11 million (2022: RMB11 million) during the year. The Group entered a lease agreement with Fuzhou 851 with the lease term till 2024 for the use of office premise located in the PRC and have made repayment of the lease liabilities of RMB7 million (2022: RMB7 million) during the year. As at 31 December 2023, the corresponding carrying amount of the lease liabilities is insignificant (2022: RMB7 million).

In addition, certain of the Group's borrowings were also secured by guarantees provided by a director of the Company as at 31 December 2022 as set out in Note 33.

Note: As at 31 December 2023 and 2022, the amounts due from joint ventures are not trade in nature, unsecured, non-interest bearing and repayable on demand. Details of the impairment assessment of amounts due from joint ventures are set out in Note 40.

43. RELATED PARTY DISCLOSURES (Cont'd)

(b) Compensation of key management personnel

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

	2023	2022
	RMB million	RMB million
Salaries, allowances and other short-term employee benefits	**183**	141
Contribution to retirement benefits schemes	**1**	1
Share-based payments expense	**93**	6
	277	148

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

44. CAPITAL COMMITMENTS

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

	2023	2022
	RMB million	RMB million
Capital expenditure in respect of:		
– Capital injection in joint ventures	**609**	606
– Acquisition of property, plant and equipment	**128**	252
– Properties under development projects	**383**	460
– Purchase of convertible promissory note	**–**	14
	1,120	1,332

45. ACQUISITION OF SUBSIDIARIES

On 18 April 2023, the Group entered into a merger agreement with Gravitas Education Holdings, Inc. ("GEHI"), a company incorporated in the Cayman Islands whose shares are listed on The New York Stock Exchange, pursuant to which GEHI would acquire 100% equity interest of the education business of the Group outside of the PRC, comprising the businesses operated by the Promethean Group, Edmodo, LLC, Elernity (Thailand) Co., Ltd. and Sky Knight Investments Limited (the "Spin-off Business") by the issues of 426,422,218 shares of new ordinary shares of GEHI as consideration of the transactions (the "Merger"). The Group held 74.385% equity interests of GEHI upon completion of the Merger.

As set out in Notes 34, 35 and 38, as part of the Merger: (i) Best Assistant early redeemed USD125 million (equivalent to RMB889 million) convertible and exchangeable bonds at a consideration with cash settlement to Nurture Education; (ii) Mynd.ai issued a senior secured convertible note with an aggregate principal amount of USD65 million (equivalent to RMB461 million) to Nurture Education; and (iii) Best Assistant granted a total of 163,466,057 awards of ordinary shares of Best Assistant to certain grantees.

45. ACQUISITION OF SUBSIDIARIES (Cont'd)

Following the completion of the Merger on 13 December 2023, GEHI (which subsequently known as Mynd.ai upon completion of the Merger) and its subsidiaries other than the Spin-off Business become non-wholly-owned subsidiaries of the Company while the changes in the Group's interests in the Spin-off Business, which do not result in losing control over these entities, are accounted for as equity transactions.

Immediately prior to completion of the Merger, GEHI divested its education business in the PRC and retained its education business in Singapore (these retained business, together with Mynd.ai, collectively be referred to as the "GEHI Singapore Operations") only. After the said divestiture, the Group acquired 30% equity interest in GEHI from its then shareholders at a cash consideration of USD15 million (equivalent to approximately RMB107 million) (the "Secondary Sales"). Thereafter, GEHI issued 426,422,218 shares in exchange of the Spin-off Business from the Group.

GEHI Singapore Operations are principally providing kindergarten educational services and student care services in Singapore. GEHI has substantive business processes performed by organised workforce including teachers and tutors with necessary skills, knowledge and experience to continuously provide early childhood, primary and/or secondary education services to customers. The acquisition of the GEHI is accounted for using the acquisition method.

Consideration transferred for acquisition of the GEHI Singapore Operations

	RMB million
Cash	107
Consideration share (Note)	56
Total	163

Note: In determining fair value of consideration share, fair value of the acquiree's equity interests which quoted price is available on acquisition date is more reliably measurable than the fair value of the acquirer's equity interests, which is a private entity. Therefore, fair value of the above consideration share was determined based on number of 30,055,603 GEHI Class A shares held by shareholders immediately prior to the Secondary Sales and the quoted market prices of GEHI of USD1.323 (equivalent to approximately RMB9.410) per share as at 13 December 2023 with adjustment of special dividend of USD0.5628 (equivalent to approximately RMB4.003) per share declared on 8 December 2023 to the shareholders of GEHI before the completion of the Merger.

Acquisition-related costs amounting to USD12 million (equivalent to approximately RMB85 million) have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the "Administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

45. ACQUISITION OF SUBSIDIARIES (Cont'd)

Assets acquired and liabilities of GEHI Singapore Operations recognised at the date of acquisition

	RMB million
Non-current assets	
Property, plant and equipment	34
Right-of-use assets	38
Intangible assets	58
Deferred tax assets	2
Current assets	
Inventories	1
Trade and other receivables	33
Cash and cash equivalents	115
Current liabilities	
Trade and other payables	(67)
Contract liabilities	(12)
Lease liabilities	(21)
Tax payable	(3)
Non-current liabilities	
Lease liabilities	(18)
Deferred tax liabilities	(10)
Net assets acquired	150

45. ACQUISITION OF SUBSIDIARIES (Cont'd)

Non-controlling interests

The non-controlling interests (15%) in GEHI recognised at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to RMB13 million, which is determined with reference to quoted price of GEHI at the acquisition date.

Goodwill arising on acquisition of GEHI Singapore Operations

	RMB million
Consideration transferred	163
Less: Fair value of identifiable net assets acquired	(137)
Goodwill arising on acquisition	26

Goodwill arose on the acquisition of GEHI because the acquisition included the assembled workforce of the entities comprising its education business in Singapore as at the date of acquisition. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash inflow (outflow) on acquisition of GEHI Singapore Operations

	RMB million
Consideration paid in cash	(107)
Less: Cash and cash equivalent balances acquired	115
	8

45. ACQUISITION OF SUBSIDIARIES (Cont'd)

Impact of acquisition of GEHI Singapore Operations on the results of the Group

Included in the profit for the year ended 31 December 2023 is the profit of RMB1 million attributable to the additional business generated by GEHI Singapore Operations. Revenue for the year ended 31 December 2023 includes RMB14 million generated from GEHI Singapore Operations.

Had the acquisition of the GEHI Singapore Operations been completed on 1 January 2023, total group revenue for the year ended 31 December 2023 would have been RMB7,153 million, and profit for year then ended would have been RMB442 million. The directors of the Company consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

46. OPERATING LEASE

The Group as lessor

Property rental income earned during the year was RMB3 million (2022: RMB6 million). The property is expected to generate rental yields of 5.6% (2022: 9.3%) per annum on an ongoing basis. The property held has committed tenants for the 0.25 to 8 years (2022: 0.92 to 2.25 years). The Group had contracted with tenants for the following future minimum lease payments:

	2023 **RMB million**	2022 RMB million
Within one year	**5**	3
In the second year	**3**	3
In the third year	**3**	–
In the fourth year	**2**	–
In the fifth year	**2**	–
In the sixth year and onwards	**8**	–
	23	6

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Convertible note and convertible and exchangeable bonds RMB million	Bank borrowings RMB million	Dividend payables RMB million	Lease liabilities RMB million	Total RMB million
At 1 January 2023	**1,333**	**739**	**–**	**117**	**2,189**
Financing cash flows	**(903)**	**289**	**(877)**	**(76)**	**(1,567)**
New leases	**–**	**–**	**–**	**39**	**39**
Interest paid	**(63)**	**–**	**–**	**(5)**	**(68)**
Non-cash changes:					
Exchange adjustments	**28**	**6**	**–**	**2**	**36**
Finance costs recognised	**212**	**–**	**–**	**5**	**217**
Redemption loss	**156**	**–**	**–**	**–**	**156**
Net off of prepayment for interest	**(49)**	**–**	**–**	**–**	**(49)**
Dividends declared	**–**	**–**	**943**	**–**	**943**
Acquisition of subsidiaries	**–**	**–**	**–**	**39**	**39**
At 31 December 2023	**714**	**1,034**	**66**	**121**	**1,935**
At 1 January 2022	1,085	403	–	159	1,647
Financing cash flows	–	341	(1,225)	(69)	(953)
New leases	–	–	–	24	24
Interest paid	(50)	–	–	(7)	(57)
Non-cash changes:					
Exchange adjustments	104	28	–	3	135
Finance costs recognised	194	–	–	7	201
Dividends declared	–	–	1,225	–	1,225
Forgiveness of partial bank borrowings	–	(33)	–	–	(33)
At 31 December 2022	1,333	739	–	117	2,189

48. SUBSIDIARIES OF THE COMPANY

(a) Particulars of the Company's principal subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2023 and 2022 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/ registered capital	Proportion of registered capital/ issued share capital/equity interests and voting power held by the Company directly		indirectly		Principal activities
			2023 **%**	2022 %	**2023** **%**	2022 %	
NetDragon BVI	British Virgin Islands	USD222,203.93	**100**	100	**-**	–	Investment holding
Fujian Huayu*	PRC	RMB200 million	**-**	–	**-**	–	Operation and development of online education business
NetDragon (Fujian)*	PRC	RMB10 million	**-**	–	**-**	–	Operation of online games
Fujian Tianquan	PRC	RMB500 million	**-**	–	**100**	90.50	Operation and development of online education business
TQ Digital #	PRC	RMB946 million	**-**	–	**100**	100	Development of online games and licensing and servicing of the developed games
TQ Online #	PRC	RMB900 million	**-**	–	**100**	100	Development of online games and licensing and servicing of developed games
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司)	Hong Kong	HKD1.00	**-**	–	**100**	100	Licensing and servicing of the developed games
Mynd.ai (formerly known as GEHI)	Cayman Islands	USD456,478	**-**	–	**74.385**	N/A	Sale and distribution of education hardware and software products
Best Assistant	Cayman Islands	USD0.001	**-**	–	**100**	90.50	Investment holding
Cherrypicks Limited (創奇思有限公司)	Hong Kong	HKD150,000.00	**-**	–	**92.20**	92.20	Mobile solution, products and marketing business
福建天景房地產開發有限公司	PRC	RMB10 million	**-**	–	**100**	100	Property development

48. SUBSIDIARIES OF THE COMPANY (Cont'd)

(a) Particulars of the Company's principal subsidiaries (Cont'd)

Notes:

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements entered into with the Controlling Shareholders involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the Controlling Shareholders who are the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in owners' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise members, all of whom have to be directors of TQ Digital and Fujian Tianquan, subsidiaries of the Company, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital and Fujian Tianquan to exercise all their voting rights in NetDragon (Fujian) and Fujian Huayu, including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group. Accordingly, the results of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

Wholly foreign owned enterprise.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities outstanding at 31 December 2023 and 2022 or at any time during the year, except for the issuance of convertible and exchangeable bonds and convertible preferred shares by Best Assistant and convertible note by Mynd.ai as disclosed in Notes 34, 36 and 35 respectively in which the Company has no interest.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong, the UK, the USA and the PRC. The principal activities of these other subsidiaries are similar to those of the principal subsidiaries of the Company as set out above.

48. SUBSIDIARIES OF THE COMPANY (Cont'd)

(b) Non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiaries	Place of incorporation	Proportion of ownership and voting rights held for non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2023	2022	**2023** **RMB million**	2022 RMB million	**2023** **RMB million**	2022 RMB million
Mynd.ai and its subsidiaries (collectively "Mynd.ai Group") (Note)	Cayman Islands	**25.615%**	N/A	**(16)**	N/A	**278**	N/A
Best Assistant Group (Note)	Cayman Islands	**N/A**	9.50%	**N/A**	(61)	**N/A**	(288)
				(16)	(61)	**278**	(288)

Note: As set out in Note 45, the Group entered into a merger agreement to acquire the GEHI Singapore Operations during the year ended 31 December 2023.

GEHI, through issuing new ordinary shares, acquired the Spin-off Business from Best Assistant and the Group obtained 74.385% equity interest of GEHI. GEHI was renamed as Mynd.ai subsequent to completion of the acquisition.

After the Merger, Best Assistant becomes a wholly owned subsidiary of the Company while Mynd.ai, which holds the GEHI Singapore Operations and the Spin-off Business, becomes an indirect non-wholly owned subsidiary of the Company.

48. SUBSIDIARIES OF THE COMPANY (Cont'd)

(b) Non-wholly owned subsidiaries that have material non-controlling interests (Cont'd)

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Mynd.ai Group	Best Assistant Group
	2023	2022
	RMB million	RMB million
Current assets	**1,603**	2,203
Non-current assets	**1,461**	1,303
Current liabilities	**(1,433)**	(5,128)
Non-current liabilities	**(588)**	(1,424)
	1,043	(3,046)
Equity attributable to owners of Mynd.ai Group/Best Assistant Group	**765**	(3,065)
Non-controlling interests of subsidiaries of Mynd.ai Group/Best Assistant Group	**278**	19
	1,043	(3,046)

48. SUBSIDIARIES OF THE COMPANY (Cont'd)

(b) Non-wholly owned subsidiaries that have material non-controlling interests (Cont'd)

	Mynd.ai Group	Best Assistant Group
	2023	2022
	RMB million	RMB million
Revenue	**311**	4,247
Expenses	**(373)**	(4,874)
Loss for the period/year	**(62)**	(627)
Loss attributable to owners of Mynd.ai Group/Best Assistant Group	**(46)**	(627)
Loss attributable to the non-controlling interests of subsidiaries of Mynd.ai Group/Best Assistant Group	**(16)**	–
Loss for the period/year	**(62)**	(627)
Other comprehensive (expense) income attributable to owners of Mynd.ai Group/Best Assistant Group	**(3)**	22
Total comprehensive (expense) income attributable to owners of Mynd.ai Group/Best Assistant Group	**(48)**	(605)
Total comprehensive expense attributable to the non-controlling interests of subsidiaries of Mynd.ai Group/Best Assistant Group	**(17)**	–
Total comprehensive (expense) income for the period/year	**(65)**	(605)
Net cash outflow from operating activities for the period/year	**(112)**	(3)
Net cash inflow (outflow) from investing activities for the period/year	**107**	(227)
Net cash inflow (outflow) from financing activities for the period/year	**459**	(36)
Net cash inflow (outflow) for the period/year	**454**	(266)

49. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2023 RMB million	2022 RMB million
Non-current assets		
Investments in subsidiaries	**168**	168
Amounts due from subsidiaries	**1,510**	1,510
	1,678	1,678
Current assets		
Other receivables and prepayment	**1**	1
Amounts due from subsidiaries	**1,256**	2,223
Pledged bank deposits	**7**	–
Bank balances	**67**	42
	1,331	2,266
Current liabilities		
Other payables	**41**	39
Bank borrowing	**300**	–
Dividend payable	**66**	–
Amounts due to subsidiaries	**644**	1,628
Derivative financial instruments	**6**	31
	1,057	1,698
Net current assets	**274**	568
Net assets	**1,952**	2,246
Capital and reserves		
Share capital	**39**	40
Share premium and reserves	**1,913**	2,206
	1,952	2,246

49. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Movement in the Company's reserves:

	Share premium	Capital redemption reserve	Other reserve	Dividend reserve	Treasury share reserve	Employee share-based compensation reserve	Retained profits	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2022	1,986	8	(2)	811	(13)	51	241	3,082
Profit and total comprehensive income for the year	–	–	–	–	–	–	411	411
Repurchase and cancellation of shares	(68)	–	–	–	–	–	–	(68)
Recognition of equity-settled share-based payments, net of awarded shares and share options forfeited	–	–	–	–	–	6	–	6
Awarded shares vested to employees	–	–	–	–	4	(4)	–	–
Final dividend for 2021 paid	–	–	–	(179)	–	–	2	(177)
Interim dividend for 2022 declared and paid	–	–	–	–	–	–	(185)	(185)
Special interim dividend for 2022 and 2021 declared and paid	–	–	–	(632)	–	–	(231)	(863)
Final dividend for 2022 proposed	–	–	–	193	–	–	(193)	–
At 31 December 2022	1,918	8	(2)	193	(9)	53	45	2,206
Profit and total comprehensive income for the year	-	-	-	-	-	-	770	770
Repurchase and cancellation of shares	(133)	1	-	-	-	-	(1)	(133)
Shares issued upon exercise of share options	7	-	-	-	-	(2)	-	5
Recognition of equity-settled share-based payments, net of share options forfeited	-	-	-	-	-	5	3	8
Awarded shares vested to employees	-	-	-	-	6	(5)	(1)	-
Final dividend for 2022 paid	-	-	-	(193)	-	-	2	(191)
Interim dividend for 2023 declared and paid	-	-	-	-	-	-	(196)	(196)
Special interim dividend for 2023 declared and paid	-	-	-	-	-	-	(490)	(490)
Second special interim dividend for 2023 declared	-	-	-	-	-	-	(66)	(66)
Final dividend for 2023 proposed	(193)	-	-	193	-	-	-	-
At 31 December 2023	1,599	9	(2)	193	(3)	51	66	1,913