



NetDragon Websoft Holdings Limited
網龍網絡控股有限公司

NetDragon Announces 2019 Interim Financial Results Record First Half Revenue, Profit more than Doubled

(Hong Kong, 28 August 2019) NetDragon Websoft Holdings Limited ('NetDragon' or the 'Company'; Hong Kong Stock Code: 777), a global leader in building internet communities, today announced its financial results for the first half of 2019. NetDragon's management team will host an analyst briefing session at 10:00am Hong Kong time at Nathan Room, Lower Lobby in Conrad Hong Kong on 29 August 2019 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented, "We are excited that NetDragon delivered yet another record first half in 2019. Our revenue reached RMB2,672.5 million with 8.2% year-over-year growth, while profit attributable to shareholders more than doubled to RMB421.0 million from RMB200.7 million last year."

"Our gaming business maintained its strong growth momentum with 51.6% year-over-year revenue growth in the first half. Mobile games revenue jumped by 76.2% year-over-year, while PC games maintained its remarkable growth with 47.5% year-over-year increase in revenue. Our performance in the first half was driven by across-the-board revenue growth coming from all of our major IPs, including *Eudemons Online*, *Heroes Evolved* and *Conquer Online*. We will continue to execute our growth strategy on the back of a strong pipeline and our approach to maximize IP values."

"Our education business also delivered solid performance as our subsidiary Promethean continued its global market leadership position¹ in K-12 interactive classroom technologies with the largest market share in international markets. Our core business² continued to perform as our shipment volume of interactive flat panels in most of our core regions increased substantially in the first half year-over-year. The large Moscow phase-two tender was a major revenue contributor in second quarter of last year, which led to a year-over-year drop in overall revenue for our education business in the first half. That being said, we are seeing strong traction with our tender business as we see unprecedented volume of tender opportunities in the market, including those in Egypt, Russia and Turkey, and our ability to win these opportunities is stronger than ever. On the product side, we are excited by the commencement of the shipment of our new ActivPanel Elements Series in the second quarter. Customer feedback has been very positive, and its premium model, namely ActivPanel Titanium, was a recent winner of the prestigious Red Dot Design Award. As such, we expect Promethean to see a very strong second half. Last but not least, we are under way to monetize our user base in our online community Edmodo with a SaaS model as we are set to roll out our online tutoring services (AskMo) in the beginning of the upcoming school year."

"In China, we are starting to execute our go-to-market strategy to start large-scale penetration of our Promethean offerings with a recent major win in Fuzhou. We have also more than doubled the installed base of our flagship platform 101 Education PPT to 6.0 million as at 30 June 2019, and our active coverage with this platform has surpassed over 10 million students. In addition, we are on track to complete the development of our content distribution platform within 101 Education PPT in the second half of this year, which will pave the way for us to start content monetization."

¹ Based on report issued by Futuresource Consulting dated 12 August 2019, incorporating actual shipment volumes (excluding China) of the Company.

² Refers to Promethean business excluding selective large tenders



2019 First Half Financial Highlights

- Revenue was RMB2,672.5 million, representing a 8.2% increase year-over-year.
- Revenue from the gaming business was RMB1,575.8 million, representing 59.0% of the Company's total revenue and registering a 51.6% increase year-over-year.
- Revenue from the education business was RMB1,048.5 million, representing 39.2% of the Company's total revenue and registering a 24.2% decrease year-over-year. Excluding phase-two of the Moscow order in the second quarter of 2018, revenue from the education business represented a 4.7% increase year-over-year.
- Gross profit was RMB1,865.0 million, representing a 33.0% increase year-over-year.
- Cash inflow from operating activities was RMB420.3 million, compared to cash outflow from operating activities of RMB156.7 million for the same period of last year.
- Core segmental profit³ from the gaming business was RMB972.1 million, representing a 85.4% increase year-over-year.
- Core segmental loss² from the education business was RMB308.9 million, representing a 94.7% increase year-over-year. The increase was largely due to consolidation of Edmodo for the full 6-month period and seasonality of the Moscow order as noted above.
- Non-GAAP operating profit⁴ was RMB543.1 million, representing a 117.9% increase year-over-year.
- Profit attributable to owners of the Company was RMB421.0 million, representing a 109.7% increase year-over-year.
- The company declared an interim dividend of HK\$0.15 per share for the six months ended 30 June 2019.

Segmental Financial Highlights

(RMB '000)	2019 First Half		2018 First Half		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	1,575,849	1,048,529	1,039,346	1,384,074	51.6%	-24.2%
Gross Profit	1,513,024	351,916	978,499	421,499	54.6%	-16.5%
Gross Margin	96.0%	33.6%	94.1%	30.5%	+1.9 ppts	+3.1 ppts
Core Segmental Profit (Loss) ²	972,053	(308,943)	524,376	(158,650)	85.4%	94.7%
Segmental Operating Expenses						
- Research and development	(255,204)	(239,038)	(222,443)	(214,525)	14.7%	11.4%
- Selling and marketing	(163,847)	(251,962)	(102,609)	(224,161)	59.7%	12.4%
- Administrative	(147,426)	(128,330)	(143,806)	(113,000)	2.5%	13.6%

³ Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with Hong Kong Financial Reporting Standard 8 ("HKFRS 8") but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments and fair value change of convertible preferred shares.)

⁴ To supplement the consolidated results of the Company prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), the use of non-GAAP operating profit (loss) measure is provided solely to enhance the overall understanding of the Company's current financial performance. The non-GAAP operating profit measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating profit of the Company excludes share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries and impairment of goodwill and intangible assets.



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Gaming Business

Our gaming business revenue increased by 51.6% year-over-year to RMB1,575.8 million in the first half. Mobile games revenue soared by 76.2% year-over-year, while PC games revenue growth remained robust at 47.5% year-over-year. We also performed well in the overseas markets and recorded 52.1% increase in revenue year-over-year. As a result of strong top line growth and positive operating leverage, gaming business's core segmental profit surged by 85.4% year-over-year.

In particular, our flagship IP *Eudemons* recorded 56.5% year-over-year increase in revenue of our PC and mobile version combined. On the back of our marketing activities and new expansion packs, we managed to increase gamers' loyalty and usage activities, while at the same time optimizing spending. One of the major marketing initiatives we carried out during the period was cross-industry collaboration with renowned celebrities and brands to enhance the market influence of our *Eudemons* IP in the first half of the year. The result is a revenue growth of our *Eudemons* IP that goes along with substantial increase in number of our active players as well as paying accounts.

Our other two major IPs, namely *Heroes Evolved* and *Conquer Online*, also recorded solid revenue growth of 27.0% and 43.0% year-over-year respectively during the period. Such revenue growth was attributable to our effort in marketing and promotion that has started to pay off. IP crossover collaboration was also a major theme, including a partnership to integrate *OVERLORD*, a popular Japanese anime, with our *Heroes Evolved* IP during the first quarter of the year, which led to a significant increase in gross billings. We also significantly stepped up our effort in enhancing the contents and user experience for our players in *Conquer Online* as we launched a total of 4 expansion packs during the first half.

Looking forward, we will continue to drive revenue and profit growth by maximizing our IP values with new games and new game-play features, as well as expanding our IP portfolio. We have a robust pipeline with over 10 new games under development or in testing stage, including *Eudemons II*, *Heroes Evolved "Thrones"*, *Battle of Giants*, *Cyber Legends* and *Vow of Heroes*. We are in a position to launch multiple new games with different genres in the second half of the year, as we see a gradual opening up of new game licensing approvals by regulatory authorities.

Education Business

For the first half of 2019, revenue from the education business was RMB1,048.5 million, down 24.2% year-over-year. Excluding revenue from the large Moscow tender in the second quarter of last year (which we exclude for more comparable presentation as tender revenue tends to be irregular in timing), revenue from the education business represented a 4.7% increase year-over-year. Our subsidiary Promethean continued to perform as shipment volume of our interactive flat panels increased by 28.9% in the first half year-over-year, excluding the Moscow tender as noted above. Our tender business is also seeing strong traction, as the global wave to digitize classrooms and leverage technologies to improve learning has resulted in an unprecedented volume of tender opportunities, especially in several emerging markets such as Egypt, Russia and Turkey. In January of this year, we have signed a MOU with The Ministry of Education of Egypt to design and deliver a total of 265,000 "Pop-up" classrooms with our education products including Promethean panels as well as our software platforms. Taking into account the momentum we are seeing with both our core business and tender opportunities, we expect Promethean to see a strong second half of 2019.

We have also made great progress in product innovation. During the period, Promethean rolled out our next-generation interactive panel, the ActivPanel Elements Series, which is purpose-built to make teaching and learning more effective in a networked learning environment. Specifically, the Element Series will benefit teachers by enabling them to connect with students and use online content and applications to increase learning outcome while keeping students engaged. The result is a platform



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which provides the foundation for future online monetization at the classroom level. This groundbreaking innovation has earned the Promethean ActivPanel Titanium model a recent winner of the prestigious Red Dot Design Award. The shipment of the AcitivPanel Elements Series commenced in the second quarter and we are seeing great demand going into the second half of the year.

We continue to execute our monetization strategy at the home level, as we are on track to launch our online homework help service within Edmodo in the beginning of the upcoming school year starting in September. We also expect to broaden our tutoring service to online 1-to-1 and 1-to-few video tutoring by the end of this year.

In China, our strategy focus is to both expand user coverage and work towards monetization via a SaaS model. We have started to execute our go-to-market strategy to start large-scale penetration of our Promethean offerings, and we are excited to announce our first major win recently in Fuzhou covering approximately one hundred classrooms. Furthermore, we are continuing to deepen our penetration of our flagship software platform 101 Education PPT with 6.0 million installations as at 30 June 2019 achieving a coverage of over 10 million active students. We are also on track to complete the development of our content distribution platform within 101 Education PPT in the second half of this year, which will pave the way for monetization by enabling consumption of paid value-added contents on the platform. Last but not least, we are seeing a number of school-level SaaS platform opportunities which we are in a strong position to capitalize on given our capability to provide a complete product offering with unparalleled technology and design.

Looking forward, we are optimistic about the outlook as a result of rising traction in tender business, new product shipment as well as online user monetization. We believe our product differentiation and leading technologies will enable us to be fulfil our mission to revolutionize education with advanced technologies.

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About NetDragon Websoft Holdings Limited

NetDragon Websoft Holdings Limited (HKSE: 0777) is a global leader in building internet communities with a long track record of developing and scaling multiple internet and mobile platforms that impact hundreds of millions of users. These include China's number one online gaming portal, 17173.com, and China's most influential smartphone app store platform, 91 Wireless, which was sold to Baidu for US\$1.9 billion in 2013 as the largest Internet M&A transaction in China.

Established in 1999, NetDragon is one of the most reputable and well-known online game developers in China with a history of successful game titles including Eudemons Online, Heroes Evolved and Conquer Online. In recent years, NetDragon has also started to scale its online education business on the back of management's vision to create the largest global online learning community, and to bring the "classroom of the future" to every school around the world.

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	2,672,547	2,469,941
Cost of revenue	(807,554)	(1,067,810)
Gross profit	1,864,993	1,402,131
Other income and gains	52,753	39,817
Impairment loss under expected credit loss model, net of reversal	(81)	(13)
Selling and marketing expenses	(421,809)	(332,584)
Administrative expenses	(431,654)	(409,546)
Development costs	(502,390)	(442,233)
Other expenses and losses	(79,080)	(45,430)
Share of losses of associates	(951)	(265)
Share of loss of a joint venture	(1,418)	(198)
Operating profit	480,363	211,679
Interest income on pledged bank deposits	1,513	1,755
Exchange gain (loss) on secured bank borrowings and convertible preferred shares	123	(4,172)
Net gain on convertible preferred shares	13,436	26,953
Net loss on disposal of property held for sale	-	(68)
Finance costs	(11,374)	(5,358)
Profit before taxation	484,061	230,789
Taxation	(108,575)	(53,047)
Profit for the period	375,486	177,742



Other comprehensive (expense) income for the period,
net of income tax:

Item that may be reclassified subsequently
to profit or loss:

Exchange differences arising on translation
of foreign operations

(478) (3,109)

Item that will not be reclassified to profit or loss:

Fair value gain (loss) on equity instrument at fair value
through other comprehensive income

63 (232)

Other comprehensive expense for the period

(415) (3,341)

Total comprehensive income for the period

375,071 174,401

Profit (loss) for the period attributable to:

- Owners of the Company

421,026 200,740

- Non-controlling interests

(45,540) (22,998)

375,486 177,742

Total comprehensive income (expense) attributable to:

- Owners of the Company

420,844 198,055

- Non-controlling interests

(45,773) (23,654)

375,071 174,401

RMB cents

RMB cents

Earnings per share

- Basic

79.66 37.63

- Diluted

79.52 37.55



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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,839,615	1,657,417
Right-of-use assets	431,920	-
Prepaid lease payments	-	293,228
Investment properties	77,586	77,281
Intangible assets	792,729	824,991
Interests in associates	52,640	23,591
Interests in a joint venture	14,298	15,716
Equity instruments at fair value through other comprehensive income	1,556	1,493
Loan receivables	11,091	12,850
Prepayments and deposits	27,752	45,564
Contract assets	-	2,389
Deposits made for acquisition of property, plant and equipment	2,489	7,698
Goodwill	378,693	390,640
Deferred tax assets	38,218	38,169
	3,668,587	3,391,027
Current assets		
Properties under development	626,125	536,848
Inventories	311,221	267,420
Prepaid lease payments	-	6,636
Loan receivables	27,826	16,078
Trade receivables	721,005	450,435
Other receivables, prepayments and deposits	367,073	320,360
Contract assets	23,766	29,775
Amounts due from related companies	288	140
Amounts due from associates	2,132	2,105
Amount due from a joint venture	1,360	751
Amount due from a director	400	-
Tax recoverable	11,979	1,126



Restricted bank balances	15,089	15,089
Pledged bank deposits	156,359	156,168
Bank deposit over three months	-	68,632
Bank balances and cash	1,674,425	1,483,352
	3,939,048	3,354,915
Current liabilities		
Trade and other payables	885,357	783,040
Contract liabilities	610,951	412,462
Lease liabilities	56,047	-
Provisions	73,215	59,936
Amounts due to related companies	988	982
Amounts due to associates	135	720
Secured bank borrowings	58,633	155,157
Dividend payable	69,998	-
Tax payable	95,947	70,095
	1,851,271	1,482,392
Net current assets	2,087,777	1,872,523
Total assets less current liabilities	5,756,364	5,263,550
Non-current liabilities		
Other payables	18,679	22,219
Convertible preferred shares	95,651	108,904
Secured bank borrowings	325,389	169,604
Lease liabilities	68,015	-
Deferred tax liabilities	159,063	163,843
	666,797	464,570
Net assets	5,089,567	4,798,980
Capital and reserves		
Share capital	38,815	38,863
Share premium and reserves	5,229,735	4,893,941
Equity attributable to owners of the Company	5,268,550	4,932,804
Non-controlling interests	(178,983)	(133,824)
	5,089,567	4,798,980



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