

NetDragon Announces 2020 Interim Financial Results

Monetization set to Scale Amid Unprecedented Demand for Blended Learning Solutions

(Hong Kong, 27 August 2020) 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 2020. NetDragon's management team will hold a conference call and webcast at 10:00am Hong Kong time on 28 August 2020 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented, "We are excited with our overall achievements in the first half and the unique opportunities that are ahead of us. Our revenue reached RMB2,822.9 million with 5.6% year-over-year growth, and at the same time we achieved a 25.7% year-over-year increase in operating cashflows. While the Covid-19 global pandemic has presented short-term challenges, it has put the world in a position to embrace the adoption of education technologies in a way that has never been seen before."

"Our education business recorded revenue growth of 8.5% year-over-year in the first half, as our subsidiary Promethean continued to build on its global market leadership position to gain further market share¹, resulting in 25.6% panel volume shipment growth year-over-year despite global school closure. The growth that we have achieved in this market is a testament to our differentiated product value proposition and our unique sales network. The pandemic also led to accelerating demand of blended learning solutions around the world, and to further capitalize on this opportunity, we have launched Edmodo Enterprise, a fully-integrated blended learning platform designed with a SaaS monetization model. In the past few months, the go-to-market of Edmodo Enterprise has scaled quickly, leading to country or state-wide adoptions in Egypt, Ghana, Thailand and the US. We are also excited to announce that in August, we signed an MOU with the Ministry of Education of Egypt with a mutual commitment to deliver a customized country-wide blended learning solution that integrates our Promethean and Edmodo offerings which will generate sizable multi-year revenue stream."

"In China, we continued to strengthen user coverage and monetization foundation. With over 1 million of monthly active users of our flagship teacher-facing lesson preparation and delivery platform 101 Education PPT, we are aggressively developing premium services with the platform to expand use cases and drive user engagement. Meanwhile, our One-Stop Learning platform, a platform that enables teachers and students to communicate, teach and learn, recorded increased average monthly active users of over 10 times compared to second half of last year, with peak MAU of 5 million. With higher traffic and broader user coverage, we are in discussion with multiple provincial educational authorities to pilot different services with a SaaS monetization model."

"Our gaming business maintained its growth trajectory with 4.5% year-over-year revenue growth in the first half. We continued to see rising players' activities and engagement in our flagship IP *Eudemons*, leading to a 41.4% year-over-year increase in DAU which provides us with a solid foundation to build our future growth. We are also pleased with the performance of our overseas games that generated very strong revenue growth year-over-year, as our targeted marketing aiming at overseas new users has paid off. Looking forward, we have a robust pipeline of exciting new games to be launched within

¹ Based on report issued by Futuresource Consulting dated 10 August 2020, incorporating actual shipment volumes (excluding China) of the Company.

the next several months across multiple IPs. In addition, we are introducing IP rejuvenation initiatives for the *Eudemons* IP to expand to young gamers as part of our growth strategy to maximize IP values.”

2020 First Half Financial Highlights

- Revenue was RMB2,822.9 million, representing a 5.6% increase year-over-year.
- Revenue from the gaming business was RMB1,647.3 million, representing 58.4% of the Company’s total revenue and registering a 4.5% increase year-over-year.
- Revenue from the education business was RMB1,137.9 million, representing 40.3% of the Company’s total revenue and registering an 8.5% increase year-over-year.
- Gross profit was RMB1,869.3 million, representing a 0.2% increase year-over-year.
- Core segmental profit² from the gaming business was RMB943.6 million, representing a 0.5% decrease year-over-year.
- Core segmental loss² from the education business was RMB377.3 million, representing a 33.6% increase year-over-year. The increase was due partly to increased staff salaries on a stable headcount, and higher hosting charge as our active users ramped up significantly during the Covid-19 school closure.
- Cash inflow from operating activities was RMB528.4 million, representing a 25.7% increase year-over-year.
- Non-GAAP operating profit³ was RMB509.2 million, representing a 6.2% decrease year-over-year.
- Non-GAAP profit attributable to owners of the Company³ was RMB449.5 million, representing a 5.5% decrease year-over-year.
- The company declared an interim dividend of HK\$0.25 per share for the six months ended 30 June 2020.

Segmental Financial Highlights

(RMB '000)	2020 First Half		2019 First Half		Variance	
	Gaming	Education	Gaming (restated)	Education (restated)	Gaming	Education
Revenue	1,647,334	1,137,941	1,575,849	1,048,529	4.5%	8.5%
Gross Profit	1,583,529	285,208	1,513,024	351,916	4.7%	-19.0%
Gross Margin	96.1%	25.1%	96.0%	33.6%	+0.1 ppts	-8.5 ppts
Core Segmental Profit (Loss) ²	943,605	(377,294)	948,701	(282,425)	-0.5%	33.6%
Segmental Operating Expenses						
- Research and development	(305,790)	(258,219)	(255,204)	(239,038)	19.8%	8.0%
- Selling and marketing	(178,765)	(242,625)	(160,730)	(251,962)	11.2%	-3.7%
- Administrative	(157,773)	(141,526)	(147,376)	(128,330)	7.1%	10.3%

² 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, finance cost and exchange loss of financial instruments, intercompany finance cost, impairment loss (net of reversal), impairment of goodwill and intangible assets, fair value change of convertible preferred shares and interest expenses and exchange loss of convertible and exchangeable bonds.

³ To supplement the consolidated results of the Company prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), 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 and fair value gain of financial assets at fair value through profit or loss

Gaming Business

Our gaming business revenue increased by 4.5% year-over-year to RMB1,647.3 million in the first half.

Covid-19 has impacted players' in-game spending to a certain extent, as well as the development and testing of our gaming contents. Despite these challenges, our flagship IP *Eudemons* continued to record solid revenue growth driven primarily by substantial increase in number of active players in the first half as we focused our effort on generating more traffic, higher user engagement, and stronger IP recognition, which will serve to build a solid foundation to sustain our future growth. In the overseas markets, our revenue growth was its strongest in recent years driven by our implementation of aggressive targeted marketing to bring in new users, as well as sales channels and pay points optimization.

We are also pleased with the performance of our other two major IPs. *Conquer Online* performed well in the first half, as its ninja-themed new expansion pack with enhanced graphics and new game features has stimulated engagement and spending among gamers. *Heroes Evolved* also continued to focus on strengthening its IP value in the first half. During the period, we ran IP crossovers with popular anime *OVERLORD* to drive user engagement.

Looking forward, we will continue to drive revenue and profit growth by maximizing our IP values, as well as expanding our IP portfolio. In addition, we will continue to implement our strategy to expand our overseas revenue, which represented 11.9% of our revenue in the first half with significant room for future growth given the strength of our IPs and our development capabilities. Further, as part of our strategy to maximize IP values, we are introducing rejuvenation initiatives for the legendary *Eudemons* IP to increase the IP's appeal to young gamers, in both China and overseas.

Last but not least, our pipeline is robust with multiple new games ready to be launched by the end of this year. Our upcoming new titles include *Legends of Eudemons*, *Eudemons II*, *Eudemons Storm II*, and *Under Oath*, all of which have obtained regulatory licenses.

Education Business

For the first half of 2020, our education business recorded revenue of RMB1,137.9 million, up 8.5% year-over-year. To capitalize on the opportunities presented by Covid-19, we are making strong progress in leveraging our core competencies of being able to provide best-in-class classroom learning and distance learnings solutions – the result is a unique blended learning model, a model that educators around the world are embracing as we transitioned into the new normal of learning.

Under that backdrop, Promethean performed exceptionally well by gaining significant market share amid a challenging market which saw a significant drop in market volume in the second quarter. The market challenges also provided us with an opportunity to solidify our market leadership position, as Promethean's panel shipment outgrew the market growth in the first half by 20.5%¹. Its performance was particularly strong in emerging markets, highlighted by a sizable tender order in Egypt during the first half.

As a result of unprecedented demand for distance learning under Covid-19, our Edmodo learning platform has seen substantial uptick in its users, with our monthly active users ("MAU") reaching a record high of over 17 million during the first half⁴. Such growth was driven by the launch of our Edmodo Enterprise platform in the first quarter. Edmodo Enterprise is a fully-integrated blended learning platform that enables educational authorities to drive top-down adoption of a unique blended learning experience across an entire school, district and country, implemented with a SaaS or subscription monetization

¹ Based on report issued by Futuresource Consulting dated 10 August 2020, incorporating actual shipment volumes (excluding China) of the Company.

⁴ Highest level since acquired by NetDragon in April 2018

model. Since its official rollout, we have quickly built and scaled the sales and marketing network as well as the operating infrastructure, and are now in a strong position to scale the commercialization of this platform at a global scale. Edmodo will also leverage the existing strong sales network of Promethean as we continue to pursue a 2G and 2B go-to-market model with this new platform. In the past few months, we have seen country- or state-wide adoptions in Egypt, Ghana, Thailand and the US. With this traction, we are excited about the prospect of significantly scaling up our Edmodo monetization in the second half.

We are also excited to announce that in August, we signed an MOU with the Ministry of Education of Egypt with a mutual commitment to deliver a customized country-wide blended learning solution that integrates our Promethean and Edmodo offerings which will generate sizable multi-year revenue stream. The implementation of this contract is expected to commence in the near term, and we will also aim to replicate this country-wide model as we continue to scale our “Country Strategy” globally.

In China, our strategy is to strengthen both user coverage monetization foundation. Similar to our overseas business, the rising demand for distance learning under Covid-19 has resulted in sharp uptick in user traffic for our learning products. With over 1 million of monthly active users of our flagship teacher-facing lesson preparation and delivery platform 101 Education PPT, we are aggressively developing premium services with the platform to expand use cases and drive user engagement. On the other hand, our One-Stop Learning platform, a learning platform that enables teachers and students to communicate, teach and learn, recorded increase in average monthly active users by 10 times compared to second half of 2019, with peak MAU of 5 million. In view of high user coverage, we are exploring SaaS monetization opportunities with multiple provincial educational authorities on delivering 2G, 2B and 2C services. Lastly, we rolled out services and resources in July for the National Center for Educational Technology (“NCET”) VLAB Teaching Service System. In the fall semester of this year, NCET will launch pilot projects of virtual experimental teaching in primary and secondary schools in nearly 70 schools in 6 provinces across the country. It is expected that after the completion of the pilot, the service will be promoted to primary and secondary schools across the country through a SaaS model and generate revenue.

Looking forward, as blended learning becomes a global new normal, we believe that our unique capabilities and our integrated product offerings will put us in the strongest position to capitalize on the opportunities ahead, and as such, we are excited about our outlook in the second half as we focus on addressing exactly what the market needs with a sustainable monetization model.

- End -

Management Conference Call

NetDragon's management team will hold a conference call and webcast at 10:00am Hong Kong time on 28 August 2020 to discuss the results and recent business developments.

Details of the live conference call are as follows:

International	+852 2112 1888
Mainland China	4008 428 338
HK (China)	+852 2112 1888
US	1 866 226 1406
UK	0800 032 2849
Passcode	6142028#

A live and archived webcast of the conference call will be available on the Investor Relations section of NetDragon's website at <http://www.netdragon.com/investor/ir-webcasts.shtml>. Participants in the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for "2020 Interim Results Conference Call" and follow the registration instructions.

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, including previous establishments of China's first online gaming portal, 17173.com, and China's most influential smartphone app store platform, 91 Wireless. NetDragon was included in the Hang Seng TECH Index on 27 July 2020.

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.

For investor enquiries, please contact:

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

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	2,822,858	2,672,547
Cost of revenue	(953,587)	(807,554)
Gross profit	1,869,271	1,864,993
Other income and gains	105,907	52,753
Impairment loss under expected credit loss model, net of reversal	(15,242)	(81)
Selling and marketing expenses	(427,022)	(421,809)
Administrative expenses	(441,632)	(431,654)
Development costs	(568,906)	(502,390)
Other expenses and losses	(84,054)	(79,080)
Share of losses of associates	(2,043)	(951)
Share of losses of joint ventures	(1,850)	(1,418)
Operating profit	434,429	480,363
Interest income on pledged bank deposits	1,595	1,513
Exchange (loss) gain on secured bank borrowings, convertible preferred shares, derivative financial instruments and convertible and exchangeable bonds	(22,726)	123
Net gain on convertible preferred shares	-	13,436
Net gain on financial assets at fair value through profit or loss	14,930	-
Fair value gain on derivative financial instruments	6,971	-
Finance costs	(64,677)	(11,374)
Profit before taxation	370,522	484,061
Taxation	(92,728)	(108,575)
Profit for the period	277,794	375,486

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

Item that may be reclassified subsequently to profit or loss:

Exchange differences arising on translation of foreign
 operations

9,145 (478)

Item that will not be reclassified to profit or loss:

Fair value gain on equity instruments at fair value through
 other comprehensive income

1,390 63

Other comprehensive income (expense) for the period

10,535 (415)

Total comprehensive income for the period

288,329 375,071

Profit (loss) for the period attributable to:

- Owners of the Company

336,499 421,026

- Non-controlling interests

(58,705) (45,540)

277,794 375,486

Total comprehensive income (expense) attributable to:

- Owners of the Company

346,368 420,844

- Non-controlling interests

(58,039) (45,773)

288,329 375,071

RMB cents

RMB cents

Earnings per share

- Basic

60.93 79.66

- Diluted

60.84 79.52

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

	30 June 20	31 December 219
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,909,854	1,918,697
Right-of-use assets	467,548	467,250
Investment properties	81,476	95,090
Intangible assets	712,243	675,737
Interests in associates	72,612	54,655
Interests in joint ventures	16,496	12,346
Equity instruments at fair value through other comprehensive income	5,841	4,514
Financial assets at fair value through profit or loss	266,102	-
Loan receivables	11,888	9,573
Prepayments and deposits	55,405	57,829
Deposits made for acquisition of property, plant and equipment	5,676	11,486
Goodwill	336,390	313,328
Deferred tax assets	48,172	47,317
	<u>3,989,703</u>	<u>3,667,822</u>
Current assets		
Properties under development	485,979	469,070
Properties for sale	20,640	20,640
Inventories	476,685	237,478
Loan receivables	23,144	27,354
Trade receivables	583,698	689,360
Other receivables, prepayments and deposits	347,926	328,369
Contract assets	14,288	18,333
Amount due from a related company	655	849
Amounts due from associates	2,163	2,262
Amounts due from joint ventures	901	279
Amount due from a director	-	400
Tax recoverable	14,936	6,689
Financial assets at fair value through profit or loss	1,596	1,492
Restricted bank balances	15,089	15,089

Pledged bank deposits	145,799	145,787
Bank deposit with original maturity over three months	35,398	-
Bank balances and cash	3,910,220	2,125,637
	6,079,117	4,089,088
Current liabilities		
Trade and other payables	1,162,691	980,522
Contract liabilities	515,169	529,497
Lease liabilities	59,841	54,603
Provisions	63,906	69,867
Derivative financial instruments	81,941	-
Amounts due to a related company	-	105
Amounts due to associates	281	257
Secured bank borrowings	191,796	161,135
Dividend payable	128,780	-
Tax payable	90,223	107,120
	2,294,628	1,903,106
Net current assets	3,784,489	2,185,982
Total assets less current liabilities	7,774,192	5,853,804
Non-current liabilities		
Other payables	8,640	16,275
Convertible preferred shares	-	-
Convertible and exchangeable bonds	1,001,497	-
Secured bank borrowings	281,861	246,068
Lease liabilities	116,197	108,803
Deferred tax liabilities	114,153	121,610
	1,522,348	492,756
Net assets	6,251,844	5,361,048
Capital and reserves		
Share capital	41,163	38,822
Share premium and reserves	6,314,455	5,557,499
Equity attributable to owners of the Company	6,355,618	5,596,321
Non-controlling interests	(103,774)	(235,273)
	6,251,844	5,361,048