

NetDragon Announces Fiscal Year 2020 Financial Results

Operating Profit Rose 40% to Record High of RMB 1.1 Billion

(Hong Kong, 25 March 2021) 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 fiscal year 2020. NetDragon’s management team will hold a conference call and webcast at 10:00am Hong Kong time on 26 March 2021 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: “The year of 2020 marked the 10th consecutive year of revenue growth for NetDragon as we continue to focus on growing our business and strengthening our core competencies during the Covid-19 pandemic.”

“The pandemic has brought on both unprecedented opportunities and challenges. We have seen accelerating adoption of technology in the education space, a trend which is widely believed to continue in the post-Covid-19 world. Thanks to our years of research and development effort, our one-stop blended learning solutions have enabled us to capitalize on a new market opportunity to address the holistic edtech needs of countries around the world. We believe 2020 is a year of validation of our country model, as we succeeded in commencing our first country-wide rollout in Egypt, as well as expanding our model into a growing list of countries such as Ghana, Thailand and Malaysia. Our flagship classroom technology subsidiary Promethean also saw strong momentum in the second half of 2020 and continued to maintain its global market leadership position, being number one in market share in eight of our top ten countries by revenue contribution¹. ”

“In China, we continued to focus on broadening user coverage and driving user engagement across multiple product categories in order to prepare ourselves to scale future monetization. With monthly teachers’ active installed base of over 1.5 million in December 2020, 101 Education PPT has become one of the most popular lesson preparation and delivery platforms in China, providing us with a solid foundation to roll out paid value-added services, such as live broadcast service which we started to pilot in the second half of 2020. Meanwhile, One-Stop Learning platform expanded our “to G” penetration to nine provinces during the year, including the provinces of Hubei, Henan and Shaanxi where we are selected as their respective Ministry of Education’s official provincial education platforms.”

“We are also excited about our achievements in our gaming business in 2020, as we continued to grow our revenue by investing our efforts in development of new titles, expanding the contents in existing titles, as well as strengthening our go-to-market capabilities. During the year, we ramped up content updates for our *Eudemons* IP and launched 7 expansion packs, leading to significant increase in user activities and engagement. Our flagship game *Eudemons Online* saw its MAU and DAU increased 49% and 46%, respectively year-over year, providing a solid foundation for sustained, long-term growth of the game and the overall *Eudemons* IP. We are also pleased with the progress we have made in developing a brand new next generation 3D *Eudemons* game, which will take our gamers’ experience to a whole new level. Last but not least, as the economy continued to recover from the pandemic, we saw an 8.4% increase in our gaming revenue in the second half compared to the first half, and we expect this momentum to continue into 2021 as we maintain our strategy to maximize IP value with a series of new games to be launched in the new year.”

¹ Based on report issued by Futuresource Consulting dated 15th February 2021, incorporating actual shipment volumes (excluding China) of the Company

Fiscal Year 2020 Financial Highlights

- Revenue was RMB6,137.6 million, representing a 5.9% increase year-over-year.
- Revenue from the gaming business was RMB3,432.7 million, representing 55.9% of the Company's total revenue and registering a 4.0% increase year-over-year.
- Revenue from the education business was RMB2,443.9 million, representing 39.8% of the Company's total revenue and registering a 2.0% increase year-over-year.
- Gross profit was RMB4,171.3 million, representing an 8.2% increase year-over-year.
- Core segmental profit² from the gaming business was RMB1,963.5 million, representing a 2.1% increase year-over-year.
- Core segmental loss² from the education business was RMB585.5 million, representing an 11.6% increase year-over-year.
- Cash inflow from operating activities was RMB1,329.7 million, representing a 13.1% increase year-over-year.
- EBITDA was RMB1,621.5 million, representing a 30.2% increase year-over-year.
- Non-GAAP operating profit³ was RMB1,314.8 million, representing a 24.0% increase year-over-year.
- Profit attributable to owners of the Company was RMB953.5 million, representing an 18.1% increase year-over-year.
- Non-GAAP profit attributable to owners of the Company³ was RMB1,142.3 million, representing a 19.6% increase year-over-year.
- The Company declared a final dividend of HK\$0.25 per ordinary share (2019: HK\$0.25 per ordinary share), subject to approval at the coming annual general meeting. Total dividends for the year amounted to HK\$0.50 per ordinary share (2019: HK\$0.40 per ordinary share), representing approximately 25.9% of the total profit attributable to the owners for the year. During 2020, the Group repurchased over 7.5 million ordinary shares, which accounts for 1.3% of issued shares as of 31 December 2020, for a total consideration of approximately HK\$128.0 million. The total dividends plus share buy-backs for the year accounted for 37.3% of the profit attributable to the owners for the year.

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 ("HKFRS") 8) but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance costs of financial instruments, intercompany finance costs, impairment loss (net of reversal), impairment of goodwill and intangible assets, fair value change and exchange loss on convertible preferred shares, fair value change on financial assets at fair value through profit or loss ("FVTPL"), fair value change and exchange gain on derivative financial instruments and interest and exchange gain on convertible and exchangeable bonds.

³ To supplement the consolidated results of the Group prepared in accordance with HKFRSs, the use of non-GAAP operating profit and non-GAAP profit attributable to owners of the Company measures are 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 acquisition of subsidiaries, impairment of goodwill and intangible assets, fair value gain on financial assets at FVTPL, fair value gain on derivative financial instruments, finance costs, interest income on pledged bank deposits and exchange gain (loss) on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments.

Segmental Financial Highlights

(RMB '000)	FY2020		FY2019		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	3,432,666	2,443,941	3,299,626	2,395,398	4.0%	2.0%
Gross Profit	3,301,513	758,605	3,165,500	713,009	4.3%	6.4%
Gross Margin	96.2%	31.0%	95.9%	29.8%	+0.3 ppts	+1.2 ppts
Core Segmental Profit (Loss) ²	1,963,534	(585,481)	1,923,262	(524,458)	2.1%	11.6%
Segmental Operating Expenses						
- Research and development	(634,272)	(536,678)	(557,561)	(491,261)	13.8%	9.2%
- Selling and marketing	(401,142)	(483,215)	(385,921)	(508,088)	3.9%	-4.9%
- Administrative	(306,586)	(291,157)	(306,434)	(254,866)	0.0%	14.2%

Gaming Business

Our gaming business revenue increased by 4.0% year-over-year to RMB3,432.7 million in 2020. While Covid-19 resulted in a slowdown in spending growth of our high-paying user segment in the first half due to the pandemic, our gaming revenue regained growth momentum in the second half with an 8.4% increase half-over-half as the economy continued to recover. Despite the challenges brought by the pandemic, our overseas markets also demonstrated a strong performance with significant year-over-year increase in revenue, representing 13.7% of total gaming revenue in 2020.

Eudemons, our flagship IP, recorded solid revenue growth in 2020, driven primarily by significant increase in active users. We forged ahead in our efforts to grow a larger active user base, drive higher user engagement and build stronger IP recognition, which all served to drive our future growth. During the year, we took a more aggressive approach to enhance gamers' loyalty by launching 7 new expansion packs and a new *Eudemons* IP game. As a result, the MAU and DAU of *Eudemons* IP surged 22% and 37% in 2020 respectively.

The focus of *Heroes Evolved* during the year continued to be on expanding and optimizing its user base. Through effective marketing and promotion campaigns including collaboration with two well-known anime, *OVERLORD* and *That Time I Got Reincarnated as a Slime*, *Heroes Evolved* expanded its gamer base to ACGN⁴ field, forming a strong high paying user base foundation for future monetization. During the year, *Heroes Evolved Pocket Version* was also recommended by App Store and hit the iOS Top 10 free gaming app chart for the first time. Meanwhile, our other major IP *Conquer Online* recorded revenue growth of 6.3% in 2020, as a result of robust content and user experience enhancement with multiple expansion packs launched during the year.

Looking forward, we expect to drive revenue and profit growth on multiple fronts, including maximizing our IP values through launching new games and entering into new genres, as well as expanding our IP portfolio and IP collaboration. Our pipeline is robust with multiple new games ready to be launched in 2021. We expect to launch two *Eudemons* IP games, namely *Eudemons Mobile II* and *Legends of Eudemons*, as well as *Neopets Match 3* and *Neopets Island Builders* under the *Neopets* IP during this year. In terms of new IP, our first ACGN-style mobile game *Under Oath* is also scheduled to be launched in collaboration with Bilibili in the third quarter of 2021.

⁴ ACGN refers to Animation, Comic, Game and Novel

Education Business

In 2020, our education business recorded revenue of RMB2,443.9 million, up 2.0% year-over-year. The outbreak of Covid-19 has brought challenges but also opportunities, as blended learning model has become a necessity and we saw its adoption continuing to accelerate during the year. We have successfully capitalized on this opportunity with our unique blended learning solution, and have been engaging in active discussions with multiple countries in the pipeline.

In August 2020, we signed a 5-year MOU with Ministry of Education of Egypt (Egypt MOE) and commenced the implementation to deliver a country-wide blended learning solution that integrates our Promethean, Edmodo and several other flagship product offerings. In addition, we were in close discussion during the year with education authorities in Thailand, Ghana, Malaysia and several other countries. We expect our country rollout to be executed with a multi-pronged revenue model, including sale of hardware, realizing software revenue in the form of SaaS, subscription or licensing, as well as long-tail revenue in the form of contents and services.

Our classroom technology subsidiary Promethean continued to maintain its market leadership position during the year with its unique product value proposition, a well-established and growing channel of distributors and partners, as well as a high level of brand equity globally. Shipment of Promethean Interactive Flat Panel recorded 16.4% year-over-year increase in 2020, as we successfully transitioned into a virtual sales and marketing model in view of the pandemic. We also saw significant revenue momentum in the second half as Promethean's revenue grew by 8.0% half-over-half compared to the first half. Furthermore, we continued to enhance Promethean's operating efficiency as we achieved reduction in all of our major core direct cost items including freight, warranty and warehousing costs, leading to gross margin increase from 30.1% in 2019 to 33.6% in 2020.

In China, we continued to execute our strategy to broaden user coverage and drive user engagement in order to build a strong foundation to scale monetization. With monthly teachers' active installed base of over 1.5 million in December 2020, 101 Education PPT has become one of the most popular lesson preparation and delivery platforms in China, and we have started to pilot monetization approaches such as live broadcast service. Our other flagship product, the One-Stop Learning platform, recorded tenfold surge in average MAU to 2 million compared to 2019, and expanded its penetration to nine provinces during the year, including the provinces of Hubei, Henan and Shaanxi where we are selected as their respective education ministries official provincial education platforms. We believe the broad coverage of provinces will enable us to move toward the scaling of monetization, as education authorities are increasingly embracing the use of technologies in learning and teaching as part of the macro trend. Another major milestone achieved during the year is our successful pilot carried out for our Virtual Lab platform across 6 provinces in partnership with the National Center for Educational Technology ("NCET"), a unit directly affiliated to Chinese Ministry of Education (MOE). The virtual experimental teaching platform was well received by the participating teachers and students, and we expect to roll out the solution across the country to start generating SaaS revenue in 2021.

With our unique blended learning solutions, we are well positioned to elevate teaching and learning experience and capture market opportunities globally in a world of ever-increasing demand for education technology. We are optimistic about our growth trajectory in 2021 as we continue to capitalize on our market leadership position, our broad market coverage and our ability to execute country-level rollouts.

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Management Conference Call

NetDragon's management team will hold a conference call and webcast at 10:00am Hong Kong time on 26 March 2021 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	7636526#

A live and archived webcast of the conference call will be available on the Investor Relations section of NetDragon's website at <http://ir.nd.com.cn/en/category/webcast>. Participants in the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for "2020 Annual 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.

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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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020	2019
	RMB'000	RMB'000
Revenue	6,137,640	5,793,075
Cost of revenue	(1,966,376)	(1,937,823)
Gross profit	4,171,264	3,855,252
Other income and gains	230,884	139,568
Impairment loss under expected credit loss model, net of reversal	1,607	(26,491)
Selling and marketing expenses	(893,513)	(915,754)
Administrative expenses	(903,111)	(883,083)
Development costs	(1,175,928)	(1,075,400)
Other expenses and losses	(326,817)	(307,820)
Share of losses of associates	(15,080)	(4,936)
Share of losses of a joint ventures	(1,783)	(3,370)
Operating profit	1,087,523	777,966
Interest income on pledged bank deposits	3,263	3,181
Exchange gain (loss) on financial assets at fair value through profit or loss, bank borrowings, convertible preferred shares, convertible and exchangeable bonds and derivative financial instruments	45,302	(1,052)
Fair value change on convertible preferred shares	-	110,697
Fair value change on financial assets at fair value through profit or loss	51,733	219
Fair value change on derivative financial instruments	43,323	-
Finance costs	(157,680)	(24,742)
Profit before taxation	1,073,464	866,269
Taxation	(217,644)	(163,214)
Profit for the year	855,820	703,055

Other comprehensive (expense) income 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	(11,568)	5,517
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Item that will not be reclassified to profit or loss:

Fair value gain on equity instruments at fair

value through other comprehensive income	6,042	878
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Other comprehensive (expense) income for the year	(5,526)	6,395
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Total comprehensive income for the year	850,294	709,450
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Profit (loss) for the year attributable to:

- Owners of the Company	953,501	807,212
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- Non-controlling interests	(97,681)	(104,157)
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	855,820	703,055
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Total comprehensive income (expense) for the year

attributable to:

- Owners of the Company	944,235	813,456
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- Non-controlling interests	(93,941)	(104,006)
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	850,294	709,450
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RMB cents

RMB cents

Earnings per share

- Basic	171.19	152.68
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- Diluted	170.96	152.17
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2020

	2020	2019
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,992,708	1,918,697
Right-of-use assets	455,011	467,250
Investment properties	76,529	95,090
Intangible assets	625,771	675,737
Interests in associates	49,659	54,655
Interests in joint ventures	16,563	12,346
Equity instruments at fair value through other comprehensive income	10,808	4,514
Financial assets at fair value through profit or loss	281,194	–
Loan receivables	10,421	9,573
Other receivables, prepayments and deposits	62,841	57,829
Deposits made for acquisition of property, plant and equipment	3,630	11,486
Goodwill	241,332	313,328
Deferred tax assets	43,437	47,317
	3,869,904	3,667,822
Current assets		
Properties under development	263,915	469,070
Properties for sale	253,367	20,640
Inventories	316,909	237,478
Loan receivables	22,042	27,354
Trade receivables	525,353	689,360
Other receivables, prepayments and deposits	399,537	328,369
Contract assets	12,236	18,333



Amount due from a related company	47	849
Amounts due from associates	-	2,262
Amounts due from joint ventures	974	279
Amount due from a director	-	400
Tax recoverable	14,035	6,689
Financial assets at fair value through profit or loss	5,781	1,492
Restricted bank balances	15,611	15,089
Pledged bank deposits	146,073	145,787
Bank deposit with original maturity over three months	33,021	-
Bank balances and cash	4,114,410	2,125,637
	6,123,311	4,089,088
Current liabilities		
Trade and other payables	1,091,369	980,522
Contract liabilities	405,483	529,497
Lease liabilities	56,224	54,603
Provisions	71,501	69,867
Derivative financial instruments	40,894	-
Amount due to a related company	-	105
Amounts due to associates	3,484	257
Amount due to a joint venture	593	-
Convertible and exchangeable bonds	15,351	-
Bank borrowings	154,597	161,135
Dividend payable to non-controlling interests	99	-
Tax payable	121,083	107,120
	1,960,678	1,903,106
Net current assets	4,162,633	2,185,982
Total assets less current liabilities	8,032,537	5,853,804



Non-current liabilities

Other payables	5,409	16,275
Convertible preferred shares	-	-
Convertible and exchangeable bonds	976,765	-
Bank borrowings	191,073	246,068
Lease liabilities	116,453	108,803
Deferred tax liabilities	90,907	121,610
	<u>1,380,607</u>	<u>492,756</u>

Net assets

6,651,930 5,361,048

Capital and reserves

Share capital	40,951	38,822
Share premium and reserves	<u>6,766,393</u>	<u>5,557,499</u>
Equity attributable to owners of the Company	6,807,344	5,596,321
Non-controlling interests	<u>(155,414)</u>	<u>(235,273)</u>
	<u>6,651,930</u>	<u>5,361,048</u>