

## NetDragon Announces 2021 Interim Financial Results

*Operating Profit Increased 59% YoY  
Announces a 3-year US\$300 million share buy-back program<sup>1</sup>*

(Hong Kong, 26 August 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 the first half of 2021. NetDragon’s management team will hold a conference call and webcast at 10:00am Hong Kong time on 27<sup>th</sup> August 2021 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented, “We are excited about our overall achievements in the first half of 2021 and the strong momentum of both our gaming and education business. Our revenue increased by 18.9% year-on-year (“YoY”), reaching RMB3.4 billion, and at the same time we achieved a 59.2% YoY increase in operating profit. The outstanding operating performance is a testimony to our unique core competencies built over years of investment in our people, technologies and infrastructure.”

“Our education business recorded one of our strongest growth performances in recent years. Riding on its global market leadership position, our flagship classroom technology subsidiary Promethean continued to gain further market share, resulting in a 25.2% YoY revenue growth on the back of fast-growing market demand for classroom technology. We also continued to make progress with the execution of our country strategy with the recent signing of a MOU with the Ministry of Education in Thailand to launch the English Smart Classroom Lab project, where we will deliver a unique blended learning solution targeting the English-learning use case. In addition to Egypt and Thailand, where we see our largest near-term revenue opportunities, we are in discussion to pursue multiple opportunities in several other countries. Given our strong business performance and our confidence in the outlook, we have also recently started to commence the planning work for the public listing of our education business<sup>2</sup>.”

“Our gaming business returned to double digit growth in both revenue and core segmental profit. We continued to see rising players’ activities and engagement in our flagship IP *Eudemons*, with the MAU for the IP increasing by 5.5% YoY, which led to strong revenue growth for the IP. Our flagship game *Eudemons Online* achieved yet another record high in monthly revenue of over RMB290 million. Our two flagship mobile games, *Eudemons Online Pocket Version* and *Eudemons Online Mobile*, also saw significant increase in their MAU and DAU. Meanwhile, we continued to execute various growth initiatives for our two other flagship IPs, *Conquer* and *Heroes Evolved*, with the objective of building a solid foundation to drive long-term growth. Looking forward, we have a robust pipeline of new gaming titles which will further expand and diversify our portfolio.”

“We are also committed to maximizing the capital return for our shareholders and at the same time be able to invest in our future. To follow through on this long-term commitment, we would like to take the

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<sup>1</sup> 3-year share buy-back program is up to a total repurchased amount of US\$300 million and subject to the buy-back mandate approved by the Shareholders at the annual general meeting in each year, being 10% of the issued share capital, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Codes on Takeovers and Mergers and Share Buy-Backs.

<sup>2</sup> Shareholders of NetDragon and potential investors should note that the possible public listing of NetDragon’s education business as mentioned is still at preliminary stage; and if it proceeds, it will be subject to approvals from, among others, the relevant regulatory authorities including but not limited to the Hong Kong Stock Exchange, the final decision of the Board, market and other conditions. There is no assurance that the aforementioned possible public listing will proceed or as to when it may take place. Shareholders of NetDragon and potential investors are reminded to exercise caution when dealing in the securities of NetDragon.

opportunity to announce that our board has authorized (1) a committed 3-year share buy-back program<sup>1</sup> with a total repurchased amount of up to US\$300 million, and (2) the increase of our interim dividend by 60% to HK\$0.40 per ordinary share. Our decision to commit to this share buy-back program and increasing our cash dividend underscores our confidence in the long-term business outlook and our future cash generation abilities. We will implement these measures while maintaining a strong balance sheet and liquidity profile, as we expect our free cash flow generated each year will be more than sufficient to fund the share buy-back and dividends combined. Meanwhile, our net cash as of end of the first half sits at RMB4.1 billion, which will enable us to capitalize on strategic and acquisition opportunities going forward.”

### **2021 First Half Financial Highlights**

- Revenue was RMB3,356.2 million, representing an 18.9% increase YoY.
- Revenue from the gaming business was RMB1,847.5 million, representing 55.0% of the Group's total revenue and registering a 12.2% increase YoY.
- Revenue from the education business was RMB1,407.6 million, representing 41.9% of the Group's total revenue and registering a 23.7% increase YoY.
- Gross profit was RMB2,233.9 million, representing a 19.5% increase YoY.
- Core segmental profit<sup>3</sup> from the gaming business was RMB1,069.2 million, representing a 13.3% increase YoY.
- Core segmental loss<sup>3</sup> from the education business was RMB265.8 million, representing a 29.6% improvement YoY.
- EBITDA was RMB892.1 million, representing a 42.4% increase YoY.
- Non-GAAP operating profit<sup>4</sup> was RMB753.9 million, representing a 48.1% increase YoY.
- Profit attributable to owners of the Company was RMB430.7 million, representing a 28.0% increase YoY.
- Non-GAAP profit attributable to owners of the Company<sup>4</sup> was RMB566.7 million, representing a 26.1% increase YoY.
- Net cash balance was RMB 4.1 billion as at 30 June 2021.
- The Company declared an interim dividend of HK\$0.40 per ordinary share for the six months ended 30 June 2021, representing a 60% increase YoY.

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<sup>3</sup> 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, finance costs of financial instruments, intercompany finance costs, impairment loss (net of reversal), impairment of intangible assets and interest in an associate, fair value change and exchange loss on financial assets at fair value through profit or loss (“FVTPL”), fair value change and exchange difference on derivative financial instruments and interest and exchange difference on convertible and exchangeable bonds.

<sup>4</sup> 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 acquisition of subsidiaries, impairment of intangible assets and interest in an associate, fair value gain of financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, interest income on pledged bank deposits and exchange difference on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments.

### Segmental Financial Highlights

(RMB '000)	2021 First Half		2020 First Half		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	<b>1,847,548</b>	<b>1,407,641</b>	1,647,334	1,137,941	12.2%	23.7%
Gross Profit	<b>1,765,923</b>	<b>431,055</b>	1,583,529	285,208	11.5%	51.1%
Gross Margin	<b>95.6%</b>	<b>30.6%</b>	96.1%	25.1%	-0.5 ppts	+5.5 ppts
Core Segmental Profit (Loss) <sup>3</sup>	<b>1,069,173</b>	<b>(265,772)</b>	943,605	(377,294)	13.3%	-29.6%
Segmental Operating Expenses <sup>5</sup>						
- Research and development	<b>(322,611)</b>	<b>(272,141)</b>	(305,790)	(258,219)	5.5%	5.4%
- Selling and marketing	<b>(200,100)</b>	<b>(235,190)</b>	(178,765)	(242,625)	11.9%	-3.1%
- Administrative	<b>(170,948)</b>	<b>(172,155)</b>	(157,773)	(141,526)	8.4%	21.6%

### Gaming Business

During the period, our gaming business continued the momentum from the second half of last year with both revenue and core segmental profit returning to double digit growth. Revenue of gaming business increased by 12.2% YoY to RMB1,847.5 million, while core segmental profit increased by 13.3% YoY to 1,069.2 million.

*Eudemons*, our flagship IP, continued to achieve strong performance with revenue growing 14.1% YoY and 5.3% sequentially. The growth was driven primarily by new gameplay techniques, enriched contents and implementation of effective localized operations in overseas markets. During the period, *Eudemons Online Pocket Version* and *Eudemons Online Mobile* achieved combined MAU and DAU increase of 25.7% and 20.1%, respectively, as we finetuned our user acquisition strategy, enhanced the quality of user engagement and launched three new expansion packs together with robust marketing activities. We also continued to run IP crossovers including a partnership with the movie “*Godzilla vs. Kong*” to boost players' spending.

*Conquer Online* recorded a revenue growth of 3.7% YoY. We continue to see tremendous global opportunities for the *Conquer* IP as we aim to replicate the successful model in Egypt to multiple countries. This started to bear fruit in countries such as the Philippines, the US, Canada and Saudi Arabia in the first half, and while we scale our revenue in these markets, we expect to enter into more countries, particularly in Latin America and Southeast Asia, in the second half of the year.

We continued to implement our growth initiatives for *Heroes Evolved* IP, including increasing our investment in hero skins as well as enriching the RPG gameplay, resulting in a 24.5% YoY revenue increase for the *Heroes Evolved PC Version*. We have also made positive progress with our mobile strategy for this IP, including strengthening the gameplay and monetization of *Heroes Evolved Pocket Version*, as well as developing a PC-mobile cross platform version.

In the context of recent regulatory trend in the gaming sector, NetDragon has been actively responding to the regulatory changes, and we have taken all necessary steps to ensure that our gaming business is in compliant with all the relevant regulations. During the first half of 2021, players under 18 years of age contributed less than 1% of our gaming revenue, and therefore the anti-addiction regulatory measures

<sup>5</sup> Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortization 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.

are not expected to have a material impact on our business. In addition, we have also obtained the necessary gaming license approval for new games that we are planning to launch in the near term.

Looking forward, we will continue to drive revenue and profit growth by maximizing our IP value and optimizing our game portfolio through the launch of new games. Our pipeline is robust with multiple new games under development and testing, including *Eudemons Mobile 2* and *Under Oath* (a new IP). In the coming months, we also expect to make meaningful progress in strengthening the *Neopets* IP through strong marketing initiatives, as well as the planned launch of a new *Neopets Match-3* game.

### **Education Business**

In the first half of 2021, our education business recorded a YoY growth of 23.7% to RMB 1,407.6 million. The revenue growth combined with our cost management effort resulted in the core segmental loss of the education business to narrow significantly by 29.6% YoY to RMB 265.8 million. Under the backdrop of the Covid-19 outbreak, the demand for blended learning solutions and EdTech continued to pick up during the period. Governments around the world have been on the forefront to promote online education and distance learning to ensure students' learning is undisrupted. We believe that COVID-19 pandemic has resulted in a paradigm shift where a blended learning model to make quality education available anywhere, anytime has become a necessity and this trend will sustain in the long run.

Leveraging the favourable macro trend, Promethean achieved significant sales growth in 1H2021, with a YoY growth of 28.1% in shipment units. Product mix enhancement served to drive ASP growth, which together with cost discipline resulted in increase of our gross margin from 27.1% to 33.0% YoY. Promethean continued to maintain its position as the largest player in the international K-12 interactive panel market<sup>6</sup> as its market share increased by 3.5 percentage points HoH to 24.5%. In particular, Promethean gained market share in its top three major markets including the U.S., the U.K., and Germany.<sup>7</sup> With a strong sales backlog at the end of the first half, we are confident in our revenue growth for Promethean in 2H2021 as it further consolidates its leadership position in the market.

We continued to make progress with the execution of our country strategy. Our discussion in Egypt is on track towards securing our first large-scale order under the signed MOU. And in August, we achieved another milestone in bringing our blended learning solutions to a key ASEAN country. We signed a MOU with the Office of the Basic Education Commission under the Ministry of Education Thailand to launch the English Smart Classroom Lab Project. This project will aim to help students in Thailand take advantage of our technologies to gain deep understanding of the English language while ensuring that students at rural area get the same quality education as students in big cities. We have also been in discussion to pursue multiple opportunities in several other countries, as well as exploring acquisitions and investment opportunities that would accelerate the expansion of our geographical footprints.

In China, the “Opinions on Further Alleviating the Burden of Homework and After-school Tutoring for Students in Compulsory Education” (the “Opinions”) were announced by the General Office of the CPC Central Committee and the General Office of the State Council on 24<sup>th</sup> July 2021 and have affected many EdTech companies in China. However, NetDragon is not negatively impacted as we have no after-school tutoring business. On the contrary, as our business model focus in China has always been on to-G and to-B markets, the current regulatory environment is expected to bring us new market opportunities as greater emphasis is now put on strengthening in-school education. In the first half, we signed a strategic cooperation framework agreement with the National Center for Educational Technology (“NCET”), a unit directly affiliated to the Chinese Ministry of Education, to develop more education products and projects

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<sup>6</sup> International K-12 interactive panel market excluding China

<sup>7</sup> Based on the FutureSource Consulting Q2 2021 Interactive Display Global Report, incorporating actual shipment volumes (excluding China) of the Company

in the areas of virtual simulation technology, AI, online learning and gamified education for potential rollout in certain regions across the country. Leveraging such in-depth cooperation with NCET, we are in a strong position to capitalize on the market opportunities arising from the new regulatory environment that favours partnership between government and corporates to improve in-school education quality across the country.

Looking forward, we are optimistic about our growth trajectory in 2H2021 as we continue to build on our market leadership position, our broad market coverage, and our ability to execute country-level rollouts. Furthermore, with the continuous growth in our top line and increasing operating leverage, we believe that the core segmental loss of our education business will continue to narrow in 2H2021.

### **Stock Buy-Back Program**

The Board of the Company has authorized a committed share buy-back program of up to US\$300 million to be carried out within three years. The objective of the program is to maximize the capital return for our shareholders and at the same time maintain the cash we need to invest in our future, including mergers and acquisitions, and to provide flexibility of responding effectively to strategic opportunities. With the announcement of this program, we aim to return a substantial portion of our free cash flow to investors in the next three years via a combination of share buy-back and dividends. Meanwhile, our net cash as of June 30, 2021 is RMB4.1 billion, which will enable us to capitalize on future acquisition, investment and strategic opportunities.

The detailed execution of the buy-back program will be on the open market carried out on the Hong Kong Stock Exchange in accordance with (and subject to limits prescribed by) NetDragon's general mandate to buy back Shares granted by its shareholders at the annual general meeting for the relevant year, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Codes on Takeovers and Mergers and Share Buy-Backs and in accordance with applicable securities laws. The extent to which the Company repurchases its shares, the number of shares and the timing of any repurchases will depend on general market conditions, regulatory requirements, and other considerations.

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## Management Conference Call and Webcast

NetDragon’s management team will hold a conference call and webcast at 10:00am Hong Kong time on 27 August 2021 to discuss the results and recent business developments.

### Details of the live conference call and webcast are as follows:

International	+852 2112 1800
Mainland China	4008 423 888
HK (China)	+852 2112 1800
US	1 866 212 5567
UK	0800 068 8186
Passcode	7209327#

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 “2021 Interim Results Conference Call and Webcast” 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 more information, please visit [ir.netdragon.com](http://ir.netdragon.com).

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 2021**

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	<b>3,356,174</b>	2,822,858
Cost of revenue	<b>(1,122,299)</b>	(953,587)
	<hr/>	<hr/>
<b>Gross profit</b>	<b>2,233,875</b>	1,869,271
Other income and gains	<b>86,859</b>	105,907
Impairment loss under expected credit loss model, net of reversal	<b>(4,237)</b>	(15,242)
Selling and marketing expenses	<b>(437,997)</b>	(427,022)
Administrative expenses	<b>(485,206)</b>	(441,632)
Development costs	<b>(594,854)</b>	(568,906)
Other expenses and losses	<b>(94,341)</b>	(84,054)
Share of losses of associates	<b>(7,828)</b>	(2,043)
Share of losses of joint ventures	<b>(4,636)</b>	(1,850)
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<b>Operating profit</b>	<b>691,635</b>	434,429
Interest income on pledged bank deposits	<b>819</b>	1,595
Exchange gain (loss) on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	<b>7,522</b>	(22,726)
Net gain on financial assets at fair value through profit or loss	<b>12,052</b>	14,930
Fair value (loss) gain on derivative financial instruments	<b>(21,319)</b>	6,971
Finance costs	<b>(91,039)</b>	(64,677)
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<b>Profit before taxation</b>	<b>599,670</b>	370,522
Taxation	<b>(216,042)</b>	(92,728)
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<b>Profit for the period</b>	<b>383,628</b>	277,794
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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

**(3,403)** 9,145

Item that will not be reclassified to profit or loss:

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

**(2,504)** 1,390

Other comprehensive (expense) income for the period

**(5,907)** 10,535

Total comprehensive income for the period

**377,721** 288,329

Profit (loss) for the period attributable to:

- Owners of the Company

**430,732** 336,499

- Non-controlling interests

**(47,104)** (58,705)

**383,628** 277,794

Total comprehensive income (expense) attributable to:

- Owners of the Company

**425,338** 346,368

- Non-controlling interests

**(47,617)** (58,039)

**377,721** 288,329

**RMB cents**

RMB cents

**Earnings per share**

- Basic

**77.45** 60.93

- Diluted

**77.39** 60.84



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2021**

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	RMB'000	RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	1,943,925	1,992,708
Right-of-use assets	452,628	455,011
Investment properties	78,200	76,529
Intangible assets	747,956	625,771
Interests in associates	22,098	49,659
Interests in joint ventures	11,927	16,563
Equity instruments at fair value through other comprehensive income	8,437	10,808
Financial assets at fair value through profit or loss	281,670	281,194
Loan receivables	8,836	10,421
Other receivables, prepayments and deposits	77,892	62,841
Deposits made for acquisition of property, plant and equipment	864	3,630
Goodwill	239,125	241,332
Deferred tax assets	42,942	43,437
	<b>3,916,500</b>	<b>3,869,904</b>
<b>Current assets</b>		
Properties under development	296,808	263,915
Properties for sale	210,588	253,367
Inventories	396,251	316,909
Loan receivables	22,248	22,042
Trade receivables	611,384	525,353
Other receivables, prepayments and deposits	441,856	399,537
Contract assets	17,625	12,236
Amount due from a related company	47	47
Amounts due from joint ventures	992	974
Tax recoverable	11,976	14,035
Financial assets at fair value through profit or loss	2,920	5,781
Restricted bank balances	13,611	15,611
Pledged bank deposits	1,062	146,073
Bank deposits with original maturity over three months	762,862	33,021



Bank balances and cash	3,619,985	4,114,410
	<b>6,410,215</b>	6,123,311
<b>Current liabilities</b>		
Trade and other payables	1,089,092	1,091,369
Contract liabilities	379,690	405,483
Lease liabilities	64,263	56,224
Provisions	78,521	71,501
Derivative financial instruments	61,717	40,894
Amount due to an associate	757	3,484
Amount due to a joint venture	752	593
Convertible and exchangeable bonds	15,000	15,351
Bank borrowings	291,796	154,597
Dividend payables	115,870	99
Tax payable	148,975	121,083
	<b>2,246,433</b>	1,960,678
<b>Net current assets</b>	<b>4,163,782</b>	4,162,633
<b>Total assets less current liabilities</b>	<b>8,080,282</b>	8,032,537
<b>Non-current liabilities</b>		
Other payables	4,972	5,409
Convertible preferred shares	-	-
Convertible and exchangeable bonds	1,022,756	976,765
Bank borrowings	-	191,073
Lease liabilities	114,505	116,453
Deferred tax liabilities	85,409	90,907
	<b>1,227,642</b>	1,380,607
<b>Net assets</b>	<b>6,852,640</b>	6,651,930
<b>Capital and reserves</b>		
Share capital	40,622	40,951
Share premium and reserves	7,020,345	6,766,393
Equity attributable to owners of the Company	<b>7,060,967</b>	6,807,344
Non-controlling interests	(208,327)	(155,414)
	<b>6,852,640</b>	6,651,930

## UNAUDITED RECONCILIATIONS OF GAAP AND NON-GAAP RESULTS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<b>Operating profit</b>	<b>691,635</b>	434,429
Add:		
Share-based payments expense	6,673	15,404
Amortisation of intangible assets acquired through business acquisitions	33,010	33,288
Impairment of interest in an associate and intangible assets	22,570	28,165
Less:		
Others	-	(2,076)
<b>Non-GAAP operating profit</b>	<b>753,888</b>	509,210
<b>Profit attributable to owners of the Company</b>	<b>430,732</b>	336,499
Add:		
Share-based payments expense	6,670	15,398
Amortisation of intangible assets acquired through business acquisitions	25,038	25,521
Impairment of interest in an associate and intangible assets	20,339	17,864
Fair value loss on derivative financial instruments	21,319	-
Exchange loss on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	-	20,682
Finance costs of financial instrument <sup>8</sup>	82,423	58,852
Less:		
Net gain on financial assets at fair value through profit or loss	(12,505)	(14,854)
Fair value gain on derivative financial instruments	-	(6,971)
Exchange gain on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	(6,480)	-
Interest income on pledged bank deposits	(819)	(1,595)
Others	-	(1,877)
<b>Non-GAAP profit attributable to owners of the Company</b>	<b>566,717</b>	449,519

<sup>8</sup> Substantially non-cash