

NetDragon Websoft Holdings Limited (777.HK)

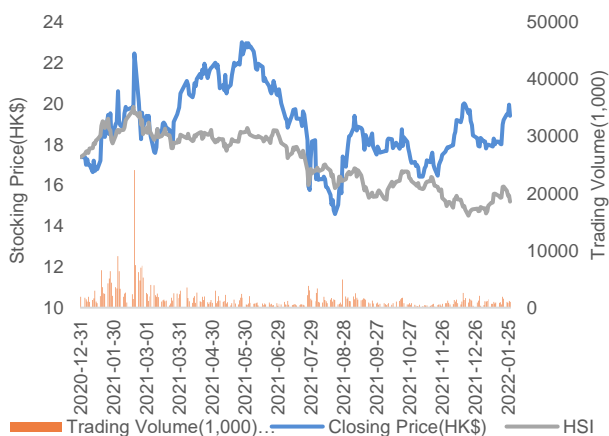
Investor Newsletter

January 2022

Stock Information (As at 27 January 2022)

Stock Code ----- **777.HK**
 Stock Price ----- **HK\$19.40**
 52-week stock price range ---- **HK\$ 13.76-23.15**
 Market Cap ----- **HK\$ 10.58 billion**
 Issued share capital ----- **545 million shares**

YTD share prices and trading volume (since 2021)



About NetDragon

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.

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*, *Conquer Online*, *Heroes Evolved* and *Under Oath*. 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 true integrated blended learning solutions to every school around the world. For more information, please visit ir.netdragon.com.



Analyst Reports

Date	Firm	Rating	Target Price (HK\$)
Dec 2021	Southwest Securities	Buy	37.75
Sep 2021	First Shanghai Securities	Buy	31.00
Sep 2021	CITIC Securities	Buy	30.00
Aug 2021	Essence International	Buy	28.90
Aug 2021	GF Securities	Buy	29.90
Aug 2021	CCB International	Outperform	29.00
Aug 2021	BOCOM International	Buy	31.00

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(WeChat Video Account)



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Efforts to Unlock Valuation

Gradual Reduction in education segmental loss

- Gaming valuation is currently dragged down by education's loss
- Education loss reduced by approximately 30% YoY in 1H21, and continues to drive down

Education Spin-off to reduce Conglomerate Discount

- Listing of education business provides clarity for education valuation
- We are currently planning for listing of education business

Gravitating towards a rational EdTech valuation

- The global Covid pandemic has dramatically increased the demand and penetration of blended learning
- As a global market leader, we will continue to benefit from the market's uptrend in the long term



Shareholder Value Enhancement Measures

USD
300M

3-year share buy-back program
(Up to USD 300M)

+60%

2021 interim dividend YoY growth

3%+

Dividend Yield TTM

15%+

ROE in the past two years

- After the announcement of the share buy-back program, as of 27 January 2022, NetDragon has bought back a total of over 16 million shares, amounting to HK\$298 million (approx. US\$38 million).
- NetDragon proposed board meeting on 31 January 2022 to approve the declaration and payment of a **special interim dividend of HKD1.43 per share**. The special dividend is in line with the NetDragon's long term commitment to enhance shareholder value in view of its strong historical operating performance, its significant net cash position and management's confidence in the group's future growth prospects and ability to generate sustained free cash flow. We believe that the group will continue to have ample cash to provide support for future investments in driving long-term growth post distribution of the special dividend.

Corporate Achievements & Accolades

NetDragon awarded "2021 China AI + Education Innovation List" at the World Artificial Intelligence Conference

(July 2021) NetDragon was awarded "Top 30 China AI + Education Innovation List" and "Top 10 Smart Solution Brands List" at the 2021 World Artificial Intelligent Conference jointly organized by the National Development and Reform Commission and other six ministries, representing broad recognition of NetDragon's blended learning strategy and its global vision.

NetDragon named "2020-2021 China's Gaming Industry Outstanding Social Responsibility Enterprise"

(July 2021) NetDragon was named "2020-2021 China's Gaming Industry Outstanding Social Responsibility Enterprise" by People's Daily Online. NetDragon has won the award for three consecutive years for its efforts in fulfilling social responsibility on multiple dimensions such as economy, society and technology.



Corporate Achievements & Accolades

NetDragon shortlisted in CIWEEK's "Top 50 Gaming Company Metaverse Index"

(November 2021), NetDragon was selected by CIWEEK in the "2021 Top 50 Gaming Company Metaverse Index" list and was ranked ninth in the list.

NetDragon named "China's top 100 Internet Enterprises" for 9 consecutive years

(November 2021), NetDragon was shortlisted among "2021 China's Top 100 Internet Enterprises" for nine consecutive years by Internet Society of China.

NetDragon Named "The Best Value Education Company" at Golden Hong Kong Stocks Awards 2022

(January 2022), NetDragon was named "The Best Value Education Company" at the Sixth Golden Hong Kong Stock Awards Ceremony. This award represents the capital market's recognition and support on NetDragon's achievements in education business.



Growth Drivers

Education Business

- Growing global penetration of classroom interactive display technology and demand for blended learning model boosted by the pandemic, which will be a driver of our Promethean classroom solution revenue (Promethean is a global market leader in this business with distribution channels covering over 100 countries around the world)
- Growing traction of our unique toG top-down model to drive country-wide adoption of our one-stop blended learning solutions in multiple countries (including Egypt, Thailand, Ghana, etc.) with extremely low customer acquisition costs; Aiming towards a multi-pronged revenue model to drive long-term exponential growth, with long-tail education content and service revenue
- Executing our go-to-market strategy of "2G+2B" which is highly compatible with the new policy environment in China to seize the strategic opportunity of "New Education Infrastructure" *
- Country-wide rollout of the primary and secondary school NCET virtual experiment teaching project through a distributor model to achieve SaaS monetization for our proprietary VR Lab product, as well as a broader partnership with NCET in AI, online learning, and gamified education (Note: The National Center for Educational Technology, or NCET, is a unit directly affiliated to the Chinese Ministry of Education)
- Increase in our product focus resulting in substantial cost cutting measures for our domestic education business, together with the strategic integration of our key overseas subsidiaries Promethean and Edmodo, to effectively reduce the costs of our education business and narrow its segmental loss

Gaming Business

- NetDragon's core genre MMORPG (contributing 96% of 1H 2021 gaming revenue) is a top 3 online gaming genre in terms of total addressable market size in China, and Chinese MMORPG mobile games revenue is expected to grow at 18% CAGR from 2020 to 2024 according to Frost & Sullivan
- Maximization of IP values by leveraging current combined registered user base of over 700 million
- Expansion of gaming portfolio under our flagship IPs through content rejuvenation and genre diversification
- Expansion of our IPs into key strategic overseas markets
- Successful launch of our new ACGN IP mobile game *Under Oath* in December 2021

Metaverse

- Expansion into blockchain-based games (currently in planning stage) following the successful sale of our Neopets NFTs in November 2021
- Planning to capitalize on metaverse opportunities by leveraging our broad portfolio of metaverse-enabling technologies (including VR, AI, fintech, speech, hologram, etc.), as well as our existing products with metaverse features such as VR lab and AI courseware

*New Education Infrastructure in China, which is an important part of the country's new infrastructure, is led by informatization and focusing on information networks, platform systems, digital resources, smart campuses, innovative applications and credible security, etc.



Gaming Business

Business Development



Conquer Online launches new expansion pack "Awakening of Archer"

(8 July,2021) *Conquer Online* launched a new expansion pack "Awakening of Archer", adding new battle suit system and bringing a variety of gameplay and brand-new experience through crossbows, flying swords and bows to meet the needs of users at different levels.



Eudemons Online launches 2021 annual expansion pack "Mysterious World of Shan Hai Jing: Prelude"

(25 July,2021) *Eudemons Online* launched new expansion pack "Mysterious World of Shan Hai Jing:Prelude", adding the elements of "The Classic of Mountains and Seas" and creating characters such as Houyi and Nine-tailed Fox, leading to optimal integration of the game with traditional culture.



Eudemons Online Pocket Version and Eudemons Online launch new expansion pack "Deity Rising"

(17-27 September,2021) *Eudemons Online Pocket Version* and *Eudemons Online* launched new expansion pack "Deity Rising" to enhance gameplay experience with new content and rich welfare activities.



NetDragon's Subsidiary Neopets, Inc. completed successful sale of the Neopets Metaverse Collection NFTs

(12-15 November,2021) NetDragon's Subsidiary Neopets, Inc., completed the sale of digitally created NFTs, known as the Neopets Metaverse Collection. In total, 4,233 NFTs were sold in exchange for 8,708 SOLs (Solana). Going forward, NetDragon intends to further develop the blockchain-based metaverse game related to Neopets IP.



Brand new ACGN IP mobile game Under Oath starts open beta testing on all platforms

(December,2021) Brand new ACGN IP mobile game *Under Oath*, developed by NetDragon and exclusively published by bilibili game, started open beta testing on all platforms. This next generation JRPG mobile game was designed with delicate animation, grand worldview and unique battle system.



Eudemons Online launches new expansion pack "Mysterious World of Shan Hai Jing: Divine Eudemon Rising"

(17 December 2021) *Eudemons Online* launched a brand new expansion pack "Mysterious World of Shan Hai Jing: Divine Eudemon Rising". This expansion pack features an integration of the game with the Chinese classical legend "The Classic of Mountains and Seas", where mythological beasts of mountains and seas such as Suanni and Jingwei will offer substantial enrichment of gameplay.

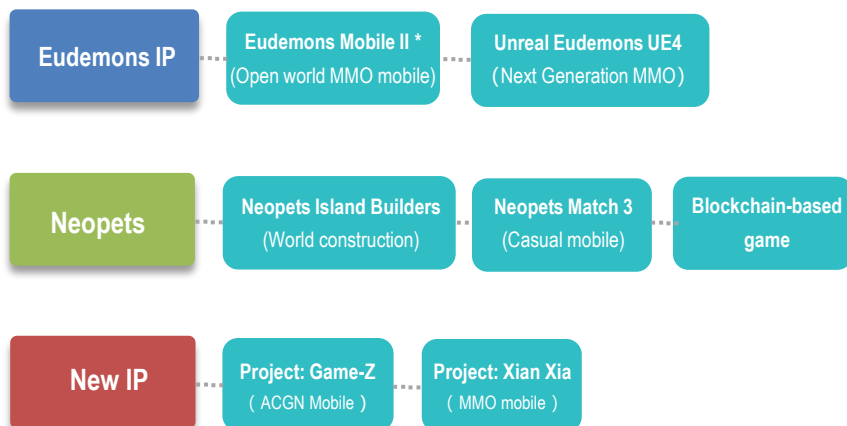
New Game Performance



NetDragon's brand-new IP mobile game *Under Oath* launched its open beta testing on all platforms in December. *Under Oath* is an ACGN mobile game, it creates a unique card battle mode and represents NetDragon's breakthrough in the category of adventurous card mobile games.

The game has received significant interest, with more than **1 Million** DAU and ranked **No.1** on iOS App Store's download chart and Tap Tap card game chart.

Games Pipeline



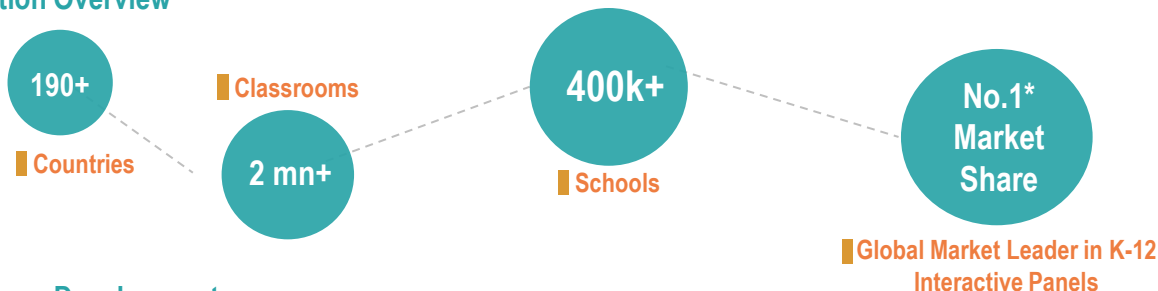
* Already gained approval from regulator



Education Business

Operation Overview

*Global K-12 market, excluding China, according to Futuresource 2021Q3 report



Business Development

ChiVox, subsidiary of NetDragon, participates in the drafting of first national standard of Oral English Computer Test

(July, 2021) China Information Industry Association(CIIA) officially released the group standard of “Standard for Computer Assessment of Oral English Proficiency Test” (T/CIIA 009-2021). This is the only nationally recognized industry standard in the Oral English Test by computer, filling the national Spoken English Test standard gap. ChiVox, subsidiary of NetDragon, is a key participator in drafting the standard and will provide technical support for the unified test.

NetDragon signs MOU with Thailand MoE to launch English Smart Classroom Lab Project

(August, 2021) NetDragon successfully signed a MOU with the Office of the Basic Education Commission (“OBEC”) under the Ministry of Education Thailand (“MoE”) to set up English Smart Classroom Labs for schools in Thailand by providing several flagship education technology products, including Edmodo World, English Galaxy and Chivox, etc. The English Smart Classroom Lab pilot project was successfully completed in October and received positive feedback from school administrators, teachers, and students.

NetDragon signs MOU with Ghana's Ministry of Education to implement country-wide Blended Learning System

(September, 2021) Having successfully implemented its world-leading teaching and learning platform, Edmodo World, in Ghana, NetDragon signed MOU with Ghana MoE to set the stage for developing a sustainable and robust country-wide Blended Learning System in the country, including potentially installing Intelligent Space Classrooms (aka “pop-up classroom”) in various regions.

Promethean continues to be the global leader in the Interactive Displays market in the third quarter of 2021

According to Futuresource Consulting's Q3 2021 report on World Interactive Displays, NetDragon's subsidiary Promethean continued to maintain its market leadership position with the largest market share of 21.5% in the global K12 market (excluding China, last twelve months up to 30 September 2021).

NetDragon's Huayu wins the tender of Chinese MoE's National K12 Cloud Platform Improvement Project

(November, 2021) NetDragon's subsidiary Huayu won the tender of National K12 Cloud Platform Function Improvement Project by China's MoE. Huayu will become the exclusive technical support provider for the platform and will also deliver provincial, municipal and district-level education solutions to generate SaaS revenue.

Robust Pipeline for Country-level Roll-out



Egypt

- Working closely with Egypt's Ministry of Education to deliver products within the MOU framework, which is expected to result in a multi-pronged revenue model, including sale of hardware, software revenue in the form of SaaS, subscription or licensing, as well as long-tail revenue in the form of contents and services
- Our discussion with Egypt's Ministry of Education is on track, and the first large-scale orders is expected to be confirmed soon



Thailand

- Signed an MOU with Thailand's Ministry of Education to set up English Smart Classroom Labs for schools in Thailand
- The pilot has successfully taken place in October 2021
- Expected to roll out to schools nationwide



Ghana

- Edmodo was selected by Ghana's Ministry of Education as the only official online learning platform for the country's K12 education system
- NetDragon has signed MOU with MoE to build a blended-learning system across the nation
- The partnership is targeting 30,000 public and private schools in Ghana, with a reach of 9.3 million students and 450,000 teachers in the country