

NetDragon Announces 2023 Annual Financial Results

*Strong gaming growth fuels momentum
as Mynd.ai sets course for new growth journey post-spinoff*

(Hong Kong, March 27, 2024) 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 2023. NetDragon’s management team will hold a results presentation and webcast at 10:00am Hong Kong time on March 28, 2024, to discuss the results and recent business developments.

Dr. Dejian Liu, Chairman of NetDragon, commented: “In 2023, we delivered results that reflect strong focus in execution and making the right investments in key strategic initiatives to drive sustainable growth. Our gaming business achieved revenue of RMB 3.8 billion for the full year, an 9.6% increase YoY, a strong turnaround compared to the 5.8% YoY decrease in 2022 vs 2021. We are proud to have delivered revenue growth for our gaming business in 9 out of the past 10 years, with 2022 as the only exception due to Covid-related macro slowdown of the domestic economy. During this 10-year period, our gaming revenue increased by 3.9 times, almost all coming from our organic growth driven by our focus in delivering high quality games to our players. In 2023, all of our core IPs delivered strong performance as we put our emphasis with relentless focus on driving gamers’ engagement and spending with quality contents, driven by continuous innovation and investment in AI technologies to stay ahead of the market. While we continued to generate significant growth for our existing games during the year, we invested heavily in a robust pipeline that includes new games in a broad array of genres. We believe our track record, our R&D capabilities along with the depth and breadth of our players’ base will put our gaming business in a unique position to perform in 2024.”

“Turning to our education business, 2023 was a landmark year as we successfully completed the spin-off listing of our overseas education business in the U.S. in December. Not only will this spinoff unlock value for our shareholders, it will also pave the way for our newly-listed entity, Mynd.ai, to expand beyond our competencies in hardware and establish ourselves as a leader in integrated hardware and software in the classroom environment. As hardware sales returned to a normalized pre-pandemic level in 2023, we believe the higher penetration and deeper adoption of interactive flat panel displays driven by the pandemic provided a solid foundation for more robust usage of software applications on our hardware. As the market leader, we believe Mynd.ai is exceptionally well positioned to capitalize on this opportunity that will redefine the education landscape.”

“We continued to make positive progress on the ESG front in 2023. In December, our ESG rating was upgraded to “BBB” by MSCI, the globally renowned index provider. This marked a significant upgrade from the previous rating and underscores the market's recognition of our achievements in ESG.”

“We are also pleased to announce that the Board has approved our final dividend proposal of HK\$0.4 per ordinary share. Including dividends declared during our interim earnings, total dividends for the year amount to HK\$1.8 per ordinary share.”

Fiscal Year 2023 Financial Highlights

- Revenue was RMB7.1 billion, representing a 9.7% decrease YoY.
- Revenue from gaming and application services was RMB4.2 billion, representing 59.0% of the Company's total revenue and a 6.6% increase YoY.
- Revenue from Mynd.ai was RMB2.9 billion, representing 41.0% of the Company's total revenue and a 25.7% decrease YoY.
- Gross profit was RMB4.4 billion, representing an 1.9% increase YoY.
- Core segmental profit¹ from the gaming and application services was RMB1.4 billion, representing a 12.9% increase YoY.
- Core segmental loss¹ from Mynd.ai was RMB93 million for FY2023 compared to profit of RMB30 million for FY2022.
- EBITDA was RMB1.3 billion, representing an 8.7% decrease YoY.
- Operating profit was RMB821 million, representing a 28.6% decrease YoY.
- Non-GAAP operating profit² was RMB1.1 billion, representing a 12.7% decrease YoY.
- Profit attributable to owners of the Company was RMB550 million, representing a 34.1% decrease YoY.
- Non-GAAP profit attributable to owners of the Company² was RMB962 million, representing a 24.9% decrease YoY.
- Operating cashflow was RMB1.1 billion, representing a 4.2% increase YoY.
- The Company declared a final dividend of HK\$0.4 per ordinary share (2022: HK\$0.4 per ordinary share), subject to approval at the coming annual general meeting.

¹ 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, intercompany finance costs, impairment loss (net of reversal), impairment loss and write off of intangible assets and inventories, fair value change and exchange difference on financial assets at fair value through profit or loss ("FVTPL"), fair value change and exchange difference on derivative financial instruments, interest expense, exchange loss and redemption loss on convertible and exchangeable bonds and redundancy payment

² To supplement the consolidated results of the Company prepared in accordance with HKFRSs, the use of non-GAAP measures is provided solely to enhance the overall understanding of the Company'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 Company exclude share-based payments expense, amortisation of intangible assets arising on acquisitions of subsidiaries, impairment loss and write off of intangible assets and inventories, fair value change on financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, interest income on pledged bank deposits, redemption loss of convertible and exchangeable bonds, reversal of impairment loss of intangible assets and exchange difference on financial assets at FVTPL, convertible and exchangeable bonds and derivative financial instruments.

Segmental Financial Highlights

Our two main reportable segments were previously “Gaming business” and “Education business”. As our overseas education business has been separately listed as Mynd.ai in the U.S. in December 2023, we have changed our two largest reportable segments to “Gaming and Application Services” and “Mynd.ai” starting with the full year 2023 earnings release, along with appropriate proforma prior year comparable financials.

(RMB million)	FY2023		FY2022		Variance	
	Gaming and application services	Mynd.ai	Gaming and application services (Restated)	Mynd.ai (Restated)	Gaming and application services (Restated)	Mynd.ai (Restated)
Revenue	4,189	2,910	3,931	3,919	+6.6%	-25.7%
Gross Profit	3,708	728	3,375	927	+9.9%	-21.5%
Gross Margin	88.5%	25.0%	85.9%	23.7%	+2.6 ppts	+1.3 ppts
Core Segmental Profit (Loss) ¹	1,399	(93)	1,239	30	+12.9%	N/A
Segmental Operating Expenses ³						
- Research and development	(1,186)	(196)	(1,019)	(204)	+16.4%	-3.9%
- Selling and marketing	(463)	(327)	(514)	(419)	-9.9%	-22.0%
- Administrative	(649)	(267)	(618)	(263)	+5.0%	+1.5%

Gaming Business

Our gaming revenue, which represents 89.7% of gaming and application services revenue, achieved a record high RMB 3.8 billion in 2023, a 9.6% YoY growth on the back of macro-economic post-Covid recovery and execution of our strategy that focuses on driving sustainable growth, a strategy that has paid off in the past 10 years as gaming revenue increased by over 3.9 times during this period. During the year, our focus includes systematically expanding our gaming contents towards an optimal combination of “content driven” and “numerical attributes driven” spending, as we see gamers increasingly paying for enhanced experience in our games with innovative, high quality contents that are constantly updated and expanded with seamless integration into the gameplay. We also continued to strengthen our operations capability in areas including marketing, user acquisition, user retention and publishing, resulting in optimization of the pool of our active players that on the one hand promotes fairness in gameplay and hence fun for all our players, and on the other hand increases loyalty of players that translate to higher spending for simply a higher quality gaming experience.

³ Segmental operating expenses exclude unallocated expenses/income such as 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.

In 2023, our domestic and overseas gaming revenue increased by 10.5% and 4.5% YoY, respectively. Our overseas revenue, which represented 15.0% of our gaming revenue, continued to be resilient despite a negative 5.7%⁴ growth of the overall overseas revenue of Chinese gaming developers in 2023 as the overseas gaming sector saw reduced activities post-Covid as well as headwinds caused by the broad-based changes around user privacy policies. We also achieved revenue growth in both PC and mobile segments. Revenue from PC games amounted to RMB3.2 billion, accounting for 84.3% of total gaming revenue with an 11.1% YoY growth. Mobile game revenue reached RMB589 million, accounting for 15.7% of total gaming revenue and registering a 2.0% YoY growth.

Our *Eudemons* IP performed exceptionally well in 2023 with revenue of RMB 3.4 billion, a YoY increase of 12.4%, highlighting the evergreen vitality of this flagship IP as we continued to consolidate our competitive advantage in the MMORPG space. In particular, our flagship PC game, *Eudemons Online*, achieved revenue of RMB 2.9 billion, a 14.0% YoY increase on the back of our growth strategy that entails i) high frequency of new contents and new gameplay mechanics, ii) enhancing gamers' overall experience by truly addressing the needs of all players to achieve a balanced ecosystem, and iii) stepping up our service level for our paying users. Our strategy resulted in not just revenue growth, but also higher engagement of our players as *Eudemons* IP saw 50.4% YoY increase in playing time per user on average during the year.

Our content strategy also paid off on the mobile end as the MAU of the “cross platform” version (ie. mobile platform) of *Eudemons Online* increased by 50.4% YoY, representing 36.2% of MAU on the PC platform, while at the same time nearly 20% of its average paying users are active players on the “cross platform” version. The strong engagement level of our players on both PC and mobile platforms, as well as the increasing dual-platform attribute (ie. PC and mobile) of *Eudemons Online*, opens the door to significantly more engagement and monetization opportunities. In 2023, revenue of our mobile games under the *Eudemons* IP increased by 4.6% YoY. In particular, our top flagship mobile game, *Eudemons pocket version* achieved a 6.0% YoY increase in gross billings, driven by optimization of our publishing strategy resulting in more effective and efficient user acquisition, in addition to continuous enhancement in gameplay experience.

Our *Heroes Evolved* IP continued to turn around its performance with games under the IP achieving a 5.8% revenue growth YoY. The popularity of the *Heroes Evolved* IP saw a significant increase during the year as we achieved a record-breaking level of live-streaming audience attending the *Heroes Evolved* e-sports competition events during the second half of the year. As live e-sports events resumed post-Covid in 2023, we expect to build on our success in e-sports to step up the promotion of the *Heroes Evolved* IP and drive player acquisition, leveraging an existing base of over 300 million of players having played the games under this IP since its launch.

We also achieved a significant expansion for our *Conquer* IP in 2023. The success of the “MMO+ casual” gameplay within the *Conquer Online* game resulted in the initiation of development of a new game

⁴ According to the China Game Industry Group Committee (“CGIGC”) & Gamma Data <2023 China Gaming Industry Report>, Dec 16th, 2023

(Code-Alpha) using this proven game play which is expected to be launched in 2024. We also started to create an ecosystem of online-to-offline competition to bring players' engagement to a new level.

During the year, we made remarkable progress in the application of generative AI (aka. AIGC) to create value for different parts of our gaming business. We saw the utilization of AI for our art production tasks increased from 14% in Q1 to 58% in Q4 2023, while man-hour savings driven by AI increased by 300% as we increasingly benefited from training of AI large language model that resulted in efficient production of high-quality contents. With AIGC, we are able to deliver much more frequent content updates that serve to increase retention of players and drive monetization. In addition, we also strategically position our investment in AIGC in areas that complement our competitive strength. During the year, we achieved strong progress in developing the "AI Companion" technology in MOBA games, including significantly increasing the retention rate of players who played with AI companions based on our testing data. We are also progressing with R&D work in NPC (non-playing characters) that could be integrated in our new open-world MMORPG in the future.

Going forward, we expect to continue to drive revenue and profits growth for our gaming business with a two-pronged approach – growing revenue for our existing games and investing in a robust pipeline of new games with a diversified array of genres, including social casual, idle card, top-down shooter, MOBA, MMORPG and ACGN games. We will also expand our geographical markets in 2024, and expect to enter or expand our presence in markets such as Japan, the Middle East and Indonesia.

Mynd.ai

In December 2023, we successfully completed the spin-off listing of our overseas education business via a merger of the business with NYSE-listed Gravitas Education Holdings Inc. ("GEHI") at a valuation of US\$800 million for the merged entity, which was renamed to Mynd.ai, Inc. ("Mynd"). Prior to the closing of the merger, GEHI divested all of its existing businesses, with the exception of its Singapore education business (which represented approximately 8% of Mynd's proforma revenue in 2023). NetDragon continues to consolidate the 2023 financial statements of Mynd in its financials, as it holds 74.4% of the issued share capital of Mynd as of December 31, 2023.

Revenue of Mynd in 2023 was RMB2.9 billion, compared to RMB3.9 billion in the prior year. The decline in revenue is reflective of a return to a normalized operating environment following significant disruptions as a result of the Covid-19 pandemic. As it specifically relates to the education technology market, government-funded Covid relief programs across the world caused significant increases in customer demand (due to availability of funds) in both 2021 and 2022. These programs had mostly concluded by 2023. Mynd's revenue in 2023 represents a continued upward trend in revenue when compared to 2020 and prior years (pre-Covid).

Other 2023 financial highlights of Mynd include:

- Gross Margin improved 1.3 percentage points versus 2022 to 25.0%, due to lower materials and freight costs, as well as exchange rate impact

- Cash flow from operations improvement of RMB23 million compared to 2022⁵
- Cash balance at year end was RMB650 million compared to RMB203 million at year end 2022
- Core segmental loss¹ of RMB93 million compared to profit of RMB30 million in 2022, primarily driven by lower sales volumes due to the market normalization as explained above

The Promethean brand under Mynd continued to maintain its market leadership position. During 2023, Promethean captured 17.4% of the K-12 Interactive Flat Panel Displays volume market share globally ex-China. ⁶ In Q4 2023 alone, Promethean was able to capture 21.1% of the global ex-China market share and continued to be the market leading brand in the United States, United Kingdom and Ireland, and Germany.⁶

Promethean's market leadership in the global K-12 market puts the company in position to continue to grow both its hardware and software business. In addition to driving the growth of its hardware business, Promethean recently launched its integrated SaaS offering, Explain Everything Advanced, to tap into the subscription-based software revenue opportunity, leveraging our global go-to-market channel. Over the course of 2024, Mynd plans to continue to drive the evolution and growth of the software business, with enhancements to the core offerings and empowering its sales team to drive engagement with customers. Mynd will also continue to invest in R&D to maintain its leadership both at the high-end of the market and foster deeper penetration of the broader, lower-cost market.

We believe Mynd is exceptionally well positioned to win market share with the following differentiation:

- Huge installed base of existing Promethean users as the market leader, which is conducive for replacement sales and SaaS software sales
- Unparalleled focus in education with a deep understanding of the needs of schools
- Unique ability to understand and meet the needs of schools/teachers in different use cases with professional training by our inhouse team of education consultants
- Comprehensive support structure post-sales to ensure seamless integration into teachers' workflow
- Well-established global network of over 4,000 distributors/resellers built over 20 years with deep understanding of the value of Promethean panels
- Promethean's market reputation and its long history as the market leading brand lead to confidence that we can be a long-term technology partner

The spinoff listing of Mynd has set the stage for the company to expand beyond hardware and integrate software applications into the offering to bring teaching and learning experience to a new level. Looking forward, the catalysts for success for Mynd will include continued growth of our hardware revenue, investing in the development of our software applications to scale SaaS revenue and expanding market leadership in both hardware and software space.

- End -

⁵ From Form 20-F filing of Mynd, in accordance with U.S. GAAP

⁶ According to Futuresource Consulting's 2023 Q4 report of the global IFPD market.

Management Presentation and Webcast

NetDragon's management team will hold a results presentation and webcast at 10:00 am Hong Kong time on March 28, 2024 to discuss the results and recent business developments.

Details of the presentation are as follows:

Time: 10:00 AM, Hong Kong Time on March 28, 2024, Thursday /
10:00 PM, Eastern Time on March 27, 2024, Wednesday
Format: Physical Presentation at The Executive Centre (Stanley Street), Hong Kong
OR Online Webcast
Venue: Level 2, No. 28 Stanley Street, Central, Hong Kong
Webcast : <https://webcast.roadshowchina.cn/SU9UQ3pzTDZaaGF6T3FSM3pmeXpCdz09>

The 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 of the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for "2023 Annual Results Presentation 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*, *Conquer Online* and *Under Oath*. In the past 10 years, NetDragon has also achieved success with its online education business both domestically and globally, and its overseas education business, currently a U.S.-listed subsidiary named Mynd.ai, is a global leader in interactive technology and its award-winning interactive displays and software can be found in more than 1 million learning and training spaces across 126 countries.

For investor enquiries, please contact:

NetDragon Websoft Holdings Limited

Ms. Maggie Zhou

Senior Director of Investor Relations

Tel : +852 2850 7266 / +86 591 8390 2825

Email : maggiezhou@nd.com.hk / ir@netdragon.com

Website : ir.netdragon.com

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023**

	2023	2022
	RMB million	RMB million
Revenue	7,101	7,866
Cost of revenue	<u>(2,703)</u>	<u>(3,551)</u>
Gross profit	4,398	4,315
Other income and gains	264	223
Impairment loss under expected credit loss model, net of reversal	(3)	(14)
Selling and marketing expenses	(807)	(945)
Administrative expenses	(1,199)	(975)
Research and development costs	(1,382)	(1,224)
Other expenses and losses	(446)	(213)
Share of results of associates and joint ventures	(4)	(17)
Operating profit	821	1,150
Exchange loss on financial assets at fair value through profit or loss, convertible and exchangeable bonds, convertible note and derivative financial instruments	(21)	(73)
Fair value change on financial assets at fair value through profit or loss	75	(33)
Fair value change on derivative financial instruments	28	15
Finance costs	<u>(268)</u>	<u>(219)</u>
Profit before taxation	635	840
Taxation	<u>(188)</u>	<u>(76)</u>
Profit for the year	<u>447</u>	<u>764</u>

Other comprehensive income (expense) 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	43	47
Item that will not be reclassified to profit or loss:		
Fair value change on equity instruments at fair value through other comprehensive income	(22)	(2)
Other comprehensive income for the year	21	45
Total comprehensive income for the year	468	809
Profit (loss) for the year attributable to:		
- Owners of the Company	550	834
- Non-controlling interests	(103)	(70)
	447	764
Total comprehensive income (expense) for the year attributable to:		
- Owners of the Company	570	879
- Non-controlling interests	(102)	(70)
	468	809
	RMB cents	RMB cents
Earnings per share		
- Basic	103.00	154.15
- Diluted	103.00	154.14

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023**

	2023	2022
	RMB million	RMB million
Non-current assets		
Property, plant and equipment	2,422	1,936
Right-of-use assets	380	380
Investment properties	60	59
Goodwill	325	287
Intangible assets	868	739
Interests in associates and joint ventures	43	34
Equity instruments at fair value through other comprehensive income	45	56
Financial assets at fair value through profit or loss	453	404
Loan receivables	12	8
Other receivables, prepayments and deposits	351	94
Deferred tax assets	433	347
	5,392	4,344
Current assets		
Properties under development	70	343
Properties for sale	280	303
Inventories	405	807
Financial assets at fair value through profit or loss	38	84
Loan receivables	79	4
Trade receivables	702	654
Other receivables, prepayments and deposits	485	549
Amounts due from joint ventures	7	5
Tax recoverable	39	29
Pledged bank deposits	315	1
Bank deposits with original maturity over three months	329	207
Cash and cash equivalents	2,241	3,701
	4,990	6,687



Current liabilities

Trade and other payables	1,518	1,513
Contract liabilities	491	406
Lease liabilities	76	67
Provisions	127	94
Derivative financial instruments	107	31
Bank borrowings	1,033	737
Convertible and exchangeable bonds	3	16
Convertible note	1	-
Tax payable	80	100
	3,436	2,964
Net current assets	1,554	3,723
Total assets less current liabilities	6,946	8,067

Non-current liabilities

Other payables	37	19
Lease liabilities	45	50
Bank borrowings	1	2
Convertible and exchangeable bonds	253	1,317
Convertible note	356	-
Convertible preferred shares	-	-
Deferred tax liabilities	80	80
	772	1,468
Net assets	6,174	6,599

Capital and reserves

Share capital	39	40
Share premium and reserves	5,856	6,859
Equity attributable to owners of the Company	5,895	6,899
Non-controlling interests	279	(300)
	6,174	6,599

UNAUDITED RECONCILIATIONS OF GAAP AND NON-GAAP RESULTS

	2023 (Unaudited) RMB million	2022 (Unaudited) RMB million
Operating profit	821	1,150
Add:		
Share-based payments expense	104	6
Amortization of intangible assets arising on acquisitions of subsidiaries	65	56
Impairment loss and write off of intangible assets and inventories	46	103
Redemption loss of convertible and exchangeable bonds	156	-
Less:		
Reversal of impairment loss of intangible assets	(44)	-
Non-GAAP operating profit	1,148	1,315
Profit attributable to owners of the Company	550	834
Add:		
Share-based payments expense	8	7
Amortization of intangible assets arising on acquisitions of subsidiaries	51	43
Impairment loss and write off of intangible assets and inventories	41	100
Finance costs	244	199
Fair value (gain) loss on financial assets at fair value through profit or loss	(74)	32
Fair value (gain) loss on derivative financial instruments	(27)	3
Exchange loss on financial assets at fair value through profit or loss, convertible note, convertible and exchangeable bonds and derivative financial instruments	13	63
Redemption loss of convertible and exchangeable bonds	156	-
Non-GAAP profit attributable to owners of the Company	962	1,281