

NetDragon Announces Fiscal Year 2021 Financial Results Revenue and Operating Profits Both Hitting New High

(Hong Kong, 29 March 2022) 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 2021. NetDragon’s management team will hold a conference call and webcast at 11:00am Hong Kong time on 30th March 2022 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented, “We are proud of our achievements in 2021 as we delivered yet another year of strong all-round performance. 2021 marked our fifth consecutive year of growth in revenue, operating profits and net profits, and this would not be made possible without our deep investments made in our technologies, IP and sales partnership network. In 2021, our revenue increased by 14.6% YoY, reaching RMB7.0 billion as both our gaming and education businesses continued to grow strongly.”

“Our education revenue in 2021 increased by 32.2% YoY, the highest growth rate in the past four years, as we saw accelerated market growth driven by increasing demand for blended learning solutions around the world. As K-12 educators look for technology tools to educate and interact with students in the new normal of learning, our Promethean products have proven to be the best option in the market as we continued to maintain our number one market share position in the international markets¹. Our country rollout strategy also continued to make progress. During the second half of the year, we successfully completed the first pilot phase for English Smart Classroom Lab project in Thailand and expanded our strategic cooperation with Ghana Ministry of Education with a target to implement a country-wide blended learning platform. In Egypt, we recently signed a definitive contract to supply 94,000 Promethean interactive flat panels to K-12 schools across the country, another milestone in our long-term partnership with the Ministry of Education.”

“Our gaming business recorded 6.1% in revenue growth and 7.8% in core segmental profits growth as we continued to pursue a balanced, sustainable growth strategy, which resulted in across-the-board revenue growth from PC and mobile platforms, as well as in both China and the overseas markets. Our flagship IP *Eudemons* continued its upward growth trajectory with a 7.8% YoY revenue increase. We also saw our annual revenue from the *Eudemons* IP grew by 3.5 times in the past 5 years on the back of a series of significant enhancements in content, gameplay and overall user experience. In December, we successfully launched our new ACGN² mobile game under our new IP *Under Oath*, which not only attests to our ability in new genre development capability, but also significantly extends our reach to young players and lays a solid foundation for our overseas expansion to capitalize on the huge ACGN addressable market overseas.”

“We would like to reiterate our commitment to enhance shareholder value as we continue to execute capital return measures including share buyback and dividends in view of our confidence in future growth prospects and our ability to generate sustained free cash flow. In August 2021, we announced

¹ Based on Futuresource Consulting Q4 2021 World Interactive Displays Report in Feb 2022. International market refers to global K-12 interactive panel market excluding China.

² ACGN refers to Animation, Comic, Game and Novel

a 3-year share buyback program³ with a total repurchased amount of up to US\$300 million, and to date, we have repurchased 16.2 million shares amounting to US\$38.0 million. In total, we returned US\$186.4 million to our shareholders in 2021 via a combination of share repurchase and dividends declared, including a US\$100 million special interim dividend announced in January 2022.”

Fiscal Year 2021 Financial Highlights

- Revenue was RMB7.0 billion, representing a 14.6% increase YoY.
- Revenue from the gaming business was RMB3.6 billion, representing 51.8% of the Company’s total revenue and registering a 6.1% increase YoY.
- Revenue from the education business was RMB3.2 billion, representing 45.9% of the Company’s total revenue and registering a 32.2% increase YoY.
- Gross profit was RMB4.5 billion, representing an 8.4% increase YoY.
- Core segmental profit⁴ from the gaming business was RMB2.1 billion, representing a 7.8% increase YoY.
- Core segmental loss⁴ from the education business was RMB411.7 million, representing a 28.4% improvement YoY.
- EBITDA was RMB1.8 billion, representing a 12.8% increase YoY.
- Operating profit was RMB1.4 billion, representing a 27.4% increase YoY.
- Non-GAAP operating profit⁵ was RMB1.5 billion, representing a 14.6% increase YoY.
- Profit attributable to owners of the Company was RMB1.1 billion, representing a 11.4% increase YoY.
- Non-GAAP profit attributable to owners of the Company⁵ was RMB1.3 billion, representing a 13.0% increase YoY.
- The Company declared a final dividend of HKD0.40 per ordinary share (2020: HKD0.25 per ordinary share), subject to approval at the coming annual general meeting. Total dividends for the year (including special interim dividend declared in January 2022) amounted to HKD2.23 per ordinary share (2020: HKD0.50 per ordinary share), representing approximately 93.8% of the total profit attributable to the owners for the year.

³ 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.

⁴ 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 loss of goodwill and intangible assets, impairment of 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 gain on derivative financial instruments, interest expense and exchange gain on convertible and exchangeable bonds and redundancy payment.

⁵ 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 acquisitions of subsidiaries, impairment loss of goodwill and intangible assets, impairment of interest in an associate, fair value change on financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, interest income on pledged bank deposits and exchange gain on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments.

Segmental Financial Highlight

(RMB '000)	FY2021		FY2020		Variance	
	Gaming	Education	Gaming (Restated)	Education (Restated)	Gaming	Education
Revenue	3,641,562	3,231,003	3,432,666	2,443,941	6.1%	32.2%
Gross Profit	3,473,642	995,312	3,301,513	758,605	5.2%	31.2%
Gross Margin	95.4%	30.8%	96.2%	31.0%	-0.8 pts	-0.2 pts
Core Segmental Profit (Loss) ⁴	2,119,937	(411,730)	1,967,160	(574,842)	7.8%	-28.4%
Segmental Operating Expenses ⁶						
- Research and development	(657,547)	(500,903)	(634,272)	(536,678)	3.7%	-6.7%
- Selling and marketing	(418,952)	(530,140)	(401,142)	(483,215)	4.4%	9.7%
- Administrative	(318,294)	(350,635)	(306,586)	(291,157)	3.8%	20.4%

Gaming Business

Our gaming business continued its growth momentum with both revenue and core segmental profit hitting new highs. Revenue of gaming business increased by 6.1% YoY to RMB3.6 billion, and core segmental profit increased by 7.8% YoY to RMB2.1 billion.

Eudemons, our core flagship IP, achieved revenue growth of 7.8% YoY, and meanwhile has grown its revenue for 7 consecutive years. In 2021, our focus was on understanding the needs of our players together with an optimal monetization strategy that leads to higher revenue generated as a result of an enhanced playing experience, while ensuring a balanced ecosystem within the games. We also executed a multi-pronged content strategy that leads to expansion of monetizable contents which add utilities to our players and creates a pleasant user experience on top of the core MMORPG elements. Furthermore, we launched two expansion packs and multiple rejuvenation marketing campaigns during the year for our flagship game *Eudemons Online* to drive revenue growth. Another future revenue driver will be our upcoming new game *Eudemons Mobile 2*, which underwent several rounds of testing during 2021 and is expected to be launched within 2022.

Our overseas revenue increased 7.9% YoY as we continued to replicate our successful model for *Conquer Online* in Egypt and expanded into the Philippines, U.S., Canada and Saudi Arabia. Further, as MOBA remains one of the most popular game genres globally, we see significant opportunities in the overseas markets for our other flagship game *Heroes Evolved* given its success in China with over 200 million registered users, and as such we have increased our efforts in developing new markets for this game including Pakistan and Vietnam.

We reached another key milestone by launching a new IP in 2021 as we commenced open-beta testing of our first ACGN mobile game *Under Oath* in December with over 1 million active users and

⁶ Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortisation 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.

152,000 APA⁷ in the first month. The successful launch of this game represents an extension of our game development capability to the ACGN genre, which is another major game genre with hundreds of millions of players globally. We currently aim to launch the first overseas version of *Under Oath* in Southeast Asia in the second half of this year.

We are also excited by the metaverse gaming space that gained tremendous traction in 2021. During 2021, we initiated planning of our first blockchain-based metaverse game under our well-known overseas IP *Neopets* with an alpha launch of the game scheduled in the second half of 2022. Our vision for this game is to become the leading player in the “pet” asset class on the blockchain, and we expect to differentiate with a “Play-and-Earn” ecosystem with fun gameplay as the primary incentive to play, hence targeting both blockchain and mainstream players, as well as an existing base of 150 million *Neopets*’ players.

Looking forward, we will continue to pursue a balanced growth strategy which will enable us to continue our growth trajectory in the long run. We expect our revenue growth to come from both existing games and new games. We will also ramp up our effort in exploring the opportunity to develop blockchain-based games, both based on our own IPs as well as new IPs.

Education Business

Revenue from our education business increased by 32.2% YoY to RMB3.2 billion, while core segmental loss decreased by 28.4% YoY. The global pandemic in the past two years has led to fundamental changes in education as blended learning model has become a major global trend. We are in a strong position to capitalize on this unprecedented opportunity as Interactive Flat Panel Display (“IFPD”) is widely seen as the “futureproof” technology to support hybrid learning⁸, and we are the clear market leader in this category.

2021 is a year of accelerated market growth as we saw significant momentum in demand from K-12 schools around the world. Shipment volume of interactive flat panel displays in the global K-12 market increased by 24.3% YoY in 2021, representing the highest growth in the past 5 years⁸. During the year, we continued to build on our market leadership position, leading to 32.2% YoY revenue growth for our education business. Specifically, we delivered strong performance in all of our major markets as we maintained our No. 1 market share position in 4 of our top 5 countries in terms of revenue contribution, including the U.S., the U.K., Germany and France. We also continued to execute with operational excellence to overcome supply chain challenges, as we mitigated increase in materials cost and freight cost by strategically enhancing our product mix and adoption of best-in-class logistics planning. The gross margin for our education business was 30.8% in 2021, compared to 31.0% in 2020.

We continued to make progress during the year with our country rollout. In Thailand, our pilot for English Smart Classroom Lab Project was completed with significant quantifiable increase in students’ learning outcomes, and on the back of that, we expect to move towards a nationwide paid pilot this year. In September, we signed a MOU with Ghana Ministry of Education to secure a long-term partnership to develop a country-wide blended learning platform. We also reached another major milestone in Egypt recently by signing a definitive contract to supply 94,000 Promethean interactive flat panels to K-12 schools, and meanwhile large-scale adoption of Edmodo is expected in 2022. We believe the adoption of Edmodo in Egypt will lead to further revenue opportunities down the road as we expect Edmodo to be the go-to platform for contents and services for K-12 students, parents and teachers in the country.

⁷ APA refers to Active Paying Account

⁸ Based on Futuresource Consulting Q4 2021 World Interactive Displays Report in Feb 2022

In China, we continued to execute our B2G strategy by working closely with education departments and schools to identify and capture opportunities. During the year, we made solid progress with our Virtual Lab platform in partnership with National Center for Educational Technology (a unit directly affiliated with the Chinese Ministry of Education) by successfully completing the nationwide pilot and covering more than 7,000 schools in 31 provinces that provided the foundation for commercial roll-out in 2022. In November 2021, we achieved another major win as we were awarded the tender to be the technical partner for the Ministry of Education's National K-12 Smart Education Platform Project. We expect this tender win will enable us to capitalize on future B2G revenue opportunities, which will become mainstream going forward in China.

Looking forward, we expect our overall education business to deliver another strong year in 2022. Global K-12 classroom penetration of interactive display is expected to rise from 18% to 30% by 2025⁹, providing ample room for growth of our Promethean panels, while increasing penetration of classroom panels will inevitably open up software and content monetization opportunities, which will put us in a great position as the leading blended learning service provider.

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⁹ Based on Futuresource Consulting Q4 2021 World Interactive Displays Report in Feb 2022

Management Conference Call and Webcast

NetDragon's management team will hold a conference call and webcast at 11:00 am Hong Kong time on 30 March 2022 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	8592530#

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 Annual 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*, *Conquer Online* 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 investor enquiries, please contact:

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021	2020
	RMB'000	RMB'000
Revenue	7,035,496	6,137,640
Cost of revenue	(2,512,930)	(1,966,376)
Gross profit	4,522,566	4,171,264
Other income and gains	223,893	230,884
Impairment loss under expected credit loss model, net of reversal	(8,077)	1,607
Selling and marketing expenses	(955,413)	(893,513)
Administrative expenses	(955,673)	(903,111)
Development costs	(1,159,308)	(1,175,928)
Other expenses and losses	(266,118)	(326,817)
Share of results of associates	(14,807)	(15,080)
Share of results of joint ventures	(1,586)	(1,783)
Operating profit	1,385,477	1,087,523
Interest income on pledged bank deposits	819	3,263
Exchange gain on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	18,605	45,302
Fair value change on financial assets at fair value through profit or loss	20,299	51,733
Fair value change on derivative financial instruments	(2,879)	43,323
Finance costs	(185,896)	(157,680)
Profit before taxation	1,236,425	1,073,464
Taxation	(253,067)	(217,644)
Profit for the year	983,358	855,820

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	(24,716)	(11,568)
Item that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(2,645)	6,042
Other comprehensive expense for the year	(27,361)	(5,526)
Total comprehensive income for the year	955,997	850,294
Profit (loss) for the year attributable to:		
- Owners of the Company	1,062,060	953,501
- Non-controlling interests	(78,702)	(97,681)
	983,358	855,820
Total comprehensive income (expense) for the year attributable to:		
- Owners of the Company	1,036,088	944,235
- Non-controlling interests	(80,091)	(93,941)
	955,997	850,294
	RMB cents	RMB cents
Earnings per share		
- Basic	191.67	171.19
- Diluted	191.58	170.96

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	2021	2020
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,939,499	1,992,708
Right-of-use assets	428,278	455,011
Investment properties	77,062	76,529
Intangible assets	772,309	625,771
Interests in associates	35,119	49,659
Interests in joint ventures	14,977	16,563
Equity instruments at fair value through other comprehensive income	8,105	10,808
Financial assets at fair value through profit or loss	266,078	281,194
Loan receivables	8,220	10,421
Other receivables, prepayments and deposits	37,543	62,841
Deposits made for acquisition of property, plant and equipment	4,690	3,630
Goodwill	217,087	241,332
Deferred tax assets	135,076	43,437
	3,944,043	3,869,904
Current assets		
Properties under development	316,872	263,915
Properties for sale	205,273	253,367
Inventories	685,117	316,909
Loan receivables	22,207	22,042
Trade receivables	831,986	525,353
Other receivables, prepayments and deposits	481,455	399,537
Contract assets	11,692	12,236
Amount due from a related company	-	47
Amounts due from joint ventures	2,945	974
Tax recoverable	25,273	14,035
Financial assets at fair value through profit or loss	1,852	5,781
Restricted bank balances	7,828	15,611
Pledged bank deposits	1,047	146,073
Bank deposits with original maturity over three months	630,000	33,021
Bank balances and cash	3,717,246	4,114,410
	6,940,793	6,123,311

Current liabilities

Trade and other payables	1,455,221	1,091,369
Contract liabilities	357,240	405,483
Lease liabilities	63,571	56,224
Provisions	88,784	71,501
Derivative financial instruments	42,565	40,894
Amount due to an associate	936	3,484
Amount due to a joint venture	-	593
Convertible and exchangeable bonds	15,000	15,351
Bank borrowings	402,910	154,597
Dividend payable to non-controlling interests	-	99
Tax payable	127,882	121,083
	2,554,109	1,960,678
Net current assets	4,386,684	4,162,633
Total assets less current liabilities	8,330,727	8,032,537
Non-current liabilities		
Other payables	10,763	5,409
Convertible preferred shares	-	-
Convertible and exchangeable bonds	1,069,874	976,765
Bank borrowings	-	191,073
Lease liabilities	95,370	116,453
Deferred tax liabilities	80,111	90,907
	1,256,118	1,380,607
Net assets	7,074,609	6,651,930
Capital and reserves		
Share capital	39,795	40,951
Share premium and reserves	7,274,605	6,766,393
Equity attributable to owners of the Company	7,314,400	6,807,344
Non-controlling interests	(239,791)	(155,414)
	7,074,609	6,651,930

UNAUDITED RECONCILIATIONS OF GAAP AND NON-GAAP RESULTS

	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Operating profit	1,385,477	1,087,523
Add:		
Share-based payments expense	13,885	32,125
Amortisation of intangible assets arising on acquisitions of subsidiaries	64,137	67,206
Impairment loss of goodwill and intangible assets	20,929	127,913
Impairment of interest in an associate	22,570	-
Non-GAAP operating profit	1,506,998	1,314,767
Profit attributable to owners of the Company	1,062,060	953,501
Add:		
Share-based payments expense	13,881	32,117
Amortisation of intangible assets arising on acquisitions of subsidiaries	49,433	51,269
Impairment loss of goodwill and intangible assets	11,779	98,785
Impairment of interest in an associate	20,339	-
Finance costs ¹⁰	168,198	143,414
Fair value loss on derivative financial instruments	2,879	-
Less:		
Fair value gain on financial assets at fair value through profit or loss	(21,218)	(50,496)
Fair value gain on derivative financial instruments	-	(43,323)
Exchange gain on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	(16,234)	(39,671)
Interest income on pledged bank deposits	(819)	(3,263)
Non-GAAP profit attributable to owners of the Company	1,290,298	1,142,333

¹⁰ Substantially non-cash