

NetDragon Announces 2022 Interim Financial Results

Achieved Record Growth for Education Business with Revenue Up 71.2% YoY

(Hong Kong, 30 August 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 the first half of 2022. NetDragon’s management team will hold a webcast at 10:00am Hong Kong time on 31st August 2022 to discuss the results and recent business development.

Dr. Dejian Liu, Chairman of NetDragon, commented, “We continued to make significant progress across our business in the first half of 2022 as our revenue increased by 26.3% YoY to RMB4.2 billion and net profit attributable to owners of the Company increased by 31.2% YoY to RMB565.1 million. Our achievement is made possible by solid commercial execution, as well as years of investment in our product R&D, global sales network and most importantly our people to maintain our overall operational competencies at the highest level.”

“Our education business delivered a record growth performance in the first half. We continued to see countries around the world accelerating their adoption of edtech with an ever-growing emphasis on blended learning in K12 classrooms. As the global market leader, we continued to innovate and drive positive, sustained impact on teachers and students. As a result, we further expanded our leadership position by increasing our market share in the first half, and delivered an exceptional performance with 71.2% YoY growth in education revenue. In addition, we stepped up our effort in pursuing partnerships and potential M&A opportunities to monetize our Promethean platform with software and SAAS applications.”

“In China, the resurgence of Covid-19 cases has led to challenges in the economy which inevitably affected consumer sentiment and spending power, and as a result impacted our gaming revenue during the first half. Despite the near-term challenges, we continued to focus on executing our long-term growth plan by actively building our pipeline of new games, driving players’ engagement level and expanding our base of paying users of our existing games. We are also excited by the quality of our pipeline. We are developing several new games under the *Eudemons* IP that will continue to drive the long-term revenue growth of this legendary IP, and we are also actively expanding into new IPs, new genres, and the overseas markets.”

“We are committed to following through on our capital return commitment to maximize value for our shareholders. To that end, we are pleased to announce that the Board declared a special interim dividend of HK\$0.50 and an interim dividend of HK\$0.40 per ordinary share for the first half of 2022. Meanwhile, we will continue to operate our business with a strong financial position with RMB3.5 billion in net cash as of June 30, 2022, which will enable us to capitalize on future acquisition, investment and strategic opportunities.”



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2022 First Half Financial Highlights

- Revenue was RMB4.2 billion, representing a 26.3% increase YoY.
- Revenue from the education business was RMB2.4 billion, representing 56.8% of the Group's total revenue and registering a 71.2% increase YoY.
- Revenue from the games business was RMB1.8 billion, representing 41.9% of the Group's total revenue and registering a 3.9% decrease YoY.
- Gross profit was RMB2.3 billion, representing a 4.0% increase YoY.
- Core segmental profit¹ from the games business was RMB1.0 billion, representing a 6.2% decrease YoY.
- Core segmental loss¹ from the education business was RMB35.7 million, representing an 86.1% improvement YoY.
- Operating Profit was RMB744.6 million, representing a 7.7% increase YoY.
- Non-GAAP operating profit² was RMB854.4 million, representing a 13.3% increase YoY.
- EBITDA was RMB877.5 million, representing an 1.6% decrease YoY.
- Non-GAAP EBITDA² was RMB1.0 billion, representing an 11.2% increase YoY.
- Profit attributable to owners of the Company was RMB565.1 million, representing a 31.2% increase YoY.
- Non-GAAP profit attributable to owners of the Company² was RMB815.8 million, representing a 44.0% increase YoY.
- The Company declared a special interim dividend and an interim dividend of HK\$0.50 and HK\$0.40 per ordinary share respectively, for the six months ended 30 June 2022.

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 of intangible assets, inventories and interest in an associate, 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 and exchange difference on convertible and exchangeable bonds and redundancy payment.

² 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 intangible assets, inventories and 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 difference on financial assets at FVTPL, bank borrowings, convertible and exchangeable bonds and derivative financial instruments.



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Segmental Financial Highlights

(RMB '000)	2022 First Half		2021 First Half		Variance	
	Gaming	Education	Gaming (Restated)	Education (Restated)	Gaming	Education
Revenue	1,775,729	2,409,818	1,847,548	1,407,641	-3.9%	71.2%
Gross Profit	1,699,076	609,687	1,765,923	431,055	-3.8%	41.4%
Gross Margin	95.7%	25.3%	95.6%	30.6%	+0.1 pts	-5.3 pts
Core Segmental Profit (Loss) ¹	1,006,454	(35,672)	1,073,223	(256,327)	-6.2%	-86.1%
Segmental Operating Expenses ³						
- Research and development	(353,308)	(225,712)	(322,611)	(272,141)	9.5%	-17.1%
- Selling and marketing	(187,531)	(252,210)	(200,100)	(235,190)	-6.3%	7.2%
- Administrative	(152,373)	(177,033)	(170,948)	(172,155)	-10.9%	2.8%

Education Business

Our education business achieved a record growth rate as its revenue in the first half increased by 71.2% YoY, reaching RMB2.4 billion. Core segmental loss narrowed to RMB35.7 million as we benefit from strong operating leverage and disciplined cost management measures.

We continued to benefit from the accelerating global trend of edtech adoption and the growing emphasis on blended learning. And it has become increasingly clear that IFPD (interactive flat panel displays) is a necessity in every K12 classrooms, without which blended learning is not possible. As a result, the industry saw a phenomenal 71.5% YoY growth in shipment volume of IFPD in the international market during the first half of 2022⁴. As the global market leader in IFPD, we continued to capitalize on the market momentum by delivering 82.5% YoY and 46.9% HoH growth in our volume shipment of IFPD. Not only did we hold the number-one market share globally, we also expanded our market share by 4.1 pts HoH to 26.0% in the first half⁵. We continued to win in the market as we increased our market share in all of our Top 5 countries by revenue contribution, namely the U.S., Italy, the U.K., Germany and France.

Our gross margin for the education business saw a decline from 30.6% to 25.3% YoY due to higher material and freight cost, and a 4.3% YoY reduction in ASP as we sold down inventory of ActivPanel 7 in anticipation of our new ActivPanel 9 product launch in June. Since the second half of 2021, we

³ 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.

⁴ Based on Futuresource Consulting Q2 2022 World Interactive Displays Report in Aug 2022. International market refers to global K-12 interactive panel market excluding China.

⁵ Market share of global K-12 interactive panel market excluding China

have seen materials cost and freight cost trending down as global supply chain challenges started to ease, and as we continued to implement best practice measures on cost management, we have seen margin improvement on a sequential basis. Excluding the tariff impact, our adjusted gross margin for our key subsidiary Prometheus increased by 1.3 pts HoH from 28.6% to 29.9% in the first half of 2022.

We reached a major milestone in product innovation during the first half as Prometheus introduced the all-new ActivPanel 9 in June to deliver transformational user experience with enhanced simplicity, connectivity, security, adaptability, and longevity to address the key needs of the educators in a hybrid learning environment. Shipment has started since the official launch, and we expect the new model to continue to drive our future revenue growth. We also stepped up our effort in exploring for software monetization opportunities for our Prometheus platform. In June, Prometheus entered into a US-based exclusive distribution agreement with leading education AI technology company Merlyn Mind as our first step to leverage our sales network to expand beyond hardware sales into SaaS solutions. At the same time, we are actively pursuing M&A opportunities with the intention to plug in ready-to-monetize software tools into our Prometheus platform.

We continued to develop traction with our B2G country-rollout strategy. In Egypt, shipment for the definitive contract signed in Q1 (to supply 94,000 Prometheus panels to K-12 schools around the country) is expected to commence in the second half of this year. In China, our priority is focused on our partnership with the National Center for Education Technology (“NCET”), a unit directly under the National Ministry of Education in China, in building the National K-12 Smart Education Platform. Since the launch of this platform on 1st March, the average daily page-view exceeded 40 million and number of registered users reached 21 million, as more and more regions within China are starting to adopt the platform.

Looking forward, we expect 2022 to be a year of exceptional growth. With our new ActivPanel 9, our expanded market leadership position and our operational capability, we believe we are in a strong position to capitalize on the opportunities ahead.

Gaming Business

Revenue of our gaming business decreased by 3.9% YoY to RMB1.8 billion in the first half of 2022, as the macro-economic impact in China has led to more conservative players’ spending across our domestic games. Revenue from our PC games decreased by 5.2% YoY due to a relatively larger high-spending players’ cohort, while revenue from our mobile games increased by 3.1% YoY.

Revenue from our flagship IP *Eudemons* decreased by 0.6% HoH and 3.8% YoY. While players’ spending has been affected in the short term, we put our focus on driving players’ engagement and expanding our paying user base. We launched four expansion packs for our *Eudemons* games during the first half, and have conducted multiple in-game events and campaigns to drive activities, leading to YoY increase in both MAU and APA (Average Paying Accounts) for the IP. In particular, despite the macro impact on revenue, our *Eudemons* PC game registered a 34% YoY increase in MAU and a 65% YoY increase in APA. *Eudemons Pocket Version*, our game with the highest mobile revenue contribution, also delivered a resilient performance with a 7.8% YoY increase in revenue. In addition,

we continued to make progress with expanding the influence of the *Eudemons* IP on the pan-entertainment front by launching its first ever stage play *Eudemons Light of Yate* in August.

Our *Conquer* IP delivered stable revenue growth on the back of two expansion packs launched in the first half and our continuous effort to innovate with new gameplay and contents. We continued to focus on expanding the overseas markets for the *Conquer* IP, and while we maintained a 20.8% YoY gross billings growth in our core market in Egypt, our gross billings from outside of Egypt increased by 57.7% YoY.

We continued to make progress with our new gaming pipeline. In July 2022, we achieved a key milestone for our *Under Oath* IP as we reached agreement with a renowned global 3A game publisher to launch the overseas game version of this IP in multiple countries starting next year. In addition, we are also excited about the alpha launch of our first Web3 game *Neopets Metaverse* in August, as we stay on track to bring this popular IP with over 150 million registered users to the Web3 space.

Looking forward, we expect to beta-launch *Eudemons Mobile 2* and *Neopets Faerie's Hope* in the second half of this year, and on top of those, we have a solid pipeline of new games lining up for 2023 and beyond. On the macro side, as China inevitably recovers from the Covid-related economic slowdown and as the gaming industry in China continues to trend towards a positive direction, we believe our gaming business is well positioned to achieve long-term sustainable growth.

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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 31st August 2022 to discuss the results and recent business developments.

Details of the live conference call are as follows:

International	+852 3008 3269
Mainland China	400 856 2291
HK (China)	+852 3008 3269
US	+1 800 387 6988
UK	0800 029 1098
Passcode	908146263

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 "2022 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*, *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 best-in-class integrated blended learning solutions to every school around the world.

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 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	4,240,381	3,356,174
Cost of revenue	(1,917,600)	(1,122,299)
Gross profit	2,322,781	2,233,875
Other income and gains	43,724	86,859
Impairment loss under expected credit loss model, net of reversal	(9,201)	(4,237)
Selling and marketing expenses	(442,111)	(437,997)
Administrative expenses	(464,017)	(485,206)
Development costs	(585,690)	(594,854)
Other expenses and losses	(112,123)	(94,341)
Share of losses of associates and joint ventures	(8,751)	(12,464)
Operating profit	744,612	691,635
Interest income on pledged bank deposits	-	819
Exchange (loss) gain on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	(41,836)	7,522
Net (loss) gain on financial assets at fair value through profit or loss	(31,728)	12,052
Fair value gain (loss) on derivative financial instruments	7,851	(21,319)
Finance costs	(99,263)	(91,039)
Profit before taxation	579,636	599,670
Taxation	(37,601)	(216,042)
Profit for the period	542,035	383,628



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Other comprehensive income (expense) 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	16,713	(3,403)
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Item that will not be reclassified to profit or loss:

Fair value loss on equity instruments at fair value through other comprehensive income	(841)	(2,504)
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Other comprehensive income (expense) for the period	15,872	(5,907)
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Total comprehensive income for the period	557,907	377,721
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Profit (loss) for the period attributable to:

- Owners of the Company	565,114	430,732
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- Non-controlling interests	(23,079)	(47,104)
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	542,035	383,628
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Total comprehensive income (expense) attributable to:

- Owners of the Company	581,858	425,338
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- Non-controlling interests	(23,951)	(47,617)
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	557,907	377,721
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RMB cents

RMB cents

Earnings per share

- Basic	104.42	77.45
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- Diluted	104.40	77.39
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,924,889	1,939,499
Right-of-use assets	396,800	428,278
Investment properties	79,757	77,062
Intangible assets	716,479	772,309
Interests in associates and joint ventures	41,345	50,096
Equity instruments at fair value through other comprehensive income	57,331	8,105
Financial assets at fair value through profit or loss	339,633	266,078
Loan receivables	4,887	8,220
Other receivables, prepayments and deposits	64,427	37,543
Deposits made for acquisition of property, plant and equipment	6,894	4,690
Goodwill	228,518	217,087
Deferred tax assets	248,240	135,076
	4,109,200	3,944,043
Current assets		
Properties under development	307,753	316,872
Properties for sale	278,582	205,273
Inventories	733,134	685,117
Loan receivables	7,507	22,207
Trade receivables	972,352	831,986
Other receivables, prepayments and deposits	415,724	481,455
Contract assets	15,199	11,692
Amounts due from joint ventures	2,498	2,945
Tax recoverable	27,098	25,273
Financial assets at fair value through profit or loss	1,414	1,852
Restricted bank balances	-	7,828
Pledged bank deposits	1,099	1,047
Bank deposits with original maturity over three months	200,000	630,000
Bank balances and cash	3,701,808	3,717,246
	6,664,168	6,940,793



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Current liabilities

Trade and other payables	1,387,566	1,455,221
Contract liabilities	327,393	357,240
Lease liabilities	61,513	63,571
Provisions	82,097	88,784
Derivative financial instruments	36,442	42,565
Amount due to an associate	-	936
Bank borrowings	443,152	402,910
Convertible and exchangeable bonds	15,583	15,000
Dividend payables	184,975	-
Tax payable	124,375	127,882
	<u>2,663,096</u>	<u>2,554,109</u>
Net current assets	4,001,072	4,386,684
Total assets less current liabilities	8,110,272	8,330,727

Non-current liabilities

Other payables	15,483	10,763
Convertible and exchangeable bonds	1,194,081	1,069,874
Convertible preferred shares	-	-
Lease liabilities	69,519	95,370
Deferred tax liabilities	80,481	80,111
	<u>1,359,564</u>	<u>1,256,118</u>
Net assets	6,750,708	7,074,609

Capital and reserves

Share capital	39,467	39,795
Share premium and reserves	6,980,105	7,274,605
	<u>7,019,572</u>	<u>7,314,400</u>
Equity attributable to owners of the Company		
Non-controlling interests	(268,864)	(239,791)
	<u>6,750,708</u>	<u>7,074,609</u>



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UNAUDITED RECONCILIATION OF GAAP AND NON-GAAP RESULTS

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Operating profit	744,612	691,635
Share-based payments expense	2,803	6,673
Amortisation of intangible assets arising on acquisitions of subsidiaries	27,408	33,010
Impairment loss of intangible assets and interest in an associate	55,215	22,570
Impairment loss of inventories	24,396	-
Non-GAAP operating profit	854,434	753,888
Profit attributable to owners of the Company	565,114	430,732
Share-based payments expense	2,802	6,670
Amortisation of intangible assets arising on acquisitions of subsidiaries	21,257	25,038
Impairment loss of intangible assets and interest in an associate	54,899	20,339
Impairment loss of inventories	22,041	-
Exchange loss (gain) on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	36,130	(6,480)
Finance costs ⁶	89,903	82,423
Net loss (gain) on financial assets at fair value through profit or loss	31,544	(12,505)
Fair value (gain) loss on derivative financial instruments	(7,851)	21,319
Interest income on pledged bank deposits	-	(819)
Non-GAAP profit attributable to owners of the Company	815,839	566,717

⁶ Substantially non-cash