

## NetDragon Announces 2022 Annual Financial Results

### Education Business Achieved Record-high Revenue

(Hong Kong, March 27, 2023) **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 2022. NetDragon’s management team will hold a conference call and webcast at 10:00am Hong Kong time on March 28, 2023, to discuss the results and recent business developments.

Dr. Dejian Liu, Chairman of NetDragon, commented: “In 2022, we delivered a resilient performance with 11.8% revenue growth in a year of both opportunities and challenges. Our education business achieved record-high revenue of RMB4.3 billion with 34.2% YoY growth, as we continued to build on our global market leadership position with our commitment to providing educators the ability to transform learning and collaboration. In June 2022, we introduced our all-new ActivPanel 9 that deliver the most robust, seamless and secured user experience yet for teachers and students. During the year, we also took steps to expand our strategic partnerships and M&A initiatives to tap into concrete software monetization opportunities that will unleash the value of our global channel reach, as well as our largest installed base in the overseas market.”

“We are also excited to have announced that in June 2022, we entered into a strategic partnership with Merlyn Mind, a leader in education AI technology. We are currently building on this partnership to develop an artificial intelligence enabled interactive panel for classrooms, which we plan on launching in our next panel release. We believe this will be a one-of-a-kind product that will elevate our competitive position to a new level.”

“The gaming industry in China went through unprecedented challenges throughout 2022 as a result of a slowdown of the domestic economy due to the Covid-19 impact. However, a clearly defined go-to-market strategy and our unique gaming IP portfolio helped us to weather the storm. Although revenue of the gaming segment decreased by 5.8% YoY, such revenue performance outperformed the market<sup>1</sup> as we remained laser focus on execution with operational excellence. Our overseas games continued to deliver exceptional performance with a YoY overseas revenue growth of 6.5%. We also substantially strengthened our R&D capability by adding over 300 R&D headcounts during the year, hence putting ourselves in a much stronger position to expand our pipeline of new games.”

“Last but not least, we continued to put shareholders’ capital return as a high priority. We are pleased to announce that the Board has approved our final dividend proposal of HK\$0.40 per ordinary share. Total dividends for the year (including special interim dividend declared in August 2022) amounted to HKD1.30 per ordinary share, representing approximately 73.0% of the total profit attributable to the owners for the year.”

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<sup>1</sup> Market revenue down 10.3% YoY, according to the China Game Industry Group Committee (“CGIGC”) & Gamma Data <China Gaming Industry Report in 2022>, Jan 13<sup>th</sup>, 2023

## **Fiscal Year 2022 Financial Highlights**

- Revenue was RMB7.9 billion, representing an 11.8% increase YoY.
- Revenue from the gaming business was RMB3.4 billion, representing 43.6% of the Company's total revenue and a 5.8% decrease YoY.
- Revenue from the education business was RMB4.3 billion, representing 55.1% of the Company's total revenue and a 34.2% increase YoY.
- Gross profit was RMB4.3 billion, representing a 4.6% decrease YoY.
- Core segmental profit<sup>2</sup> from the gaming business was RMB1.8 billion, representing a 14.1% decrease YoY.
- Core segmental loss<sup>2</sup> from the education business was RMB299 million, representing a 27.4% improvement YoY.
- EBITDA was RMB1.5 billion, representing a 20.7% decrease YoY.
- Operating profit was RMB1.2 billion, representing a 17.0% decrease YoY.
- Non-GAAP operating profit<sup>3</sup> was RMB1.3 billion, representing a 12.7% decrease YoY.
- Profit attributable to owners of the Company was RMB834 million, representing a 21.5% decrease YoY.
- Non-GAAP profit attributable to owners of the Company<sup>3</sup> was RMB1.3 billion, representing a 2.2% decrease YoY.
- Operating cashflow was RMB1.1 billion, representing a 4.2% increase YoY.
- The Company declared a final dividend of HKD0.40 per ordinary share (2021: HKD0.40 per ordinary share), subject to approval at the coming annual general meeting.

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<sup>2</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, intercompany finance costs, impairment loss (net of reversal), impairment loss of intangible assets, inventories, goodwill 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, write off of intangible assets and redundancy payment.

<sup>3</sup> 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, amortization of intangible assets arising on acquisitions of subsidiaries, impairment loss of intangible assets, inventories, goodwill 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.

## Segmental Financial Highlights

(RMB million)	FY2022		FY2021		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	<b>3,430</b>	<b>4,336</b>	3,642	3,231	<b>-5.8%</b>	<b>34.2%</b>
Gross Profit	<b>3,280</b>	<b>1,007</b>	3,474	995	<b>-5.6%</b>	<b>1.2%</b>
Gross Margin	<b>95.6%</b>	<b>23.2%</b>	95.4%	30.8%	<b>0.2 pts</b>	<b>-7.6 pts</b>
Core Segmental Profit (Loss)	<b>1,821</b>	<b>(299)</b>	2,120	(412)	<b>-14.1%</b>	<b>-27.4%</b>
Segmental Operating Expenses <sup>4</sup>						
- Research and development	<b>(768)</b>	<b>(446)</b>	(658)	(501)	<b>16.7%</b>	<b>-11.0%</b>
- Selling and marketing	<b>(398)</b>	<b>(532)</b>	(419)	(530)	<b>-5.0%</b>	<b>0.4%</b>
- Administrative	<b>(292)</b>	<b>(387)</b>	(318)	(351)	<b>-8.2%</b>	<b>10.3%</b>

## Education Business

Revenue from education business reached a record high of RMB 4.3 billion, representing a YoY increase of 34.2%, and accounting for approximately 55.1% of total revenue. Our flagship edtech subsidiary Promethean continued to outperform the market<sup>5</sup> and maintain its global ex-China #1 market leadership position<sup>6</sup> in terms of shipment volume. Total shipments of interactive flat panels reached a record-high of over 253,000 units, a YoY increase of 37.5%, as we delivered strong performance across all major markets, ranking #1 in market share in nine of our top ten markets, including the U.S., the U.K., Italy and Australia. In addition to expanding penetration of its hardware installed base, Promethean continues to leverage its unique position of being the classroom edtech hub by stepping up efforts in pursuing strategic partnership and M&A opportunities with an aim to tap into concrete software monetization opportunities. The Company announced in December the acquisition of Explain Everything, a leading digital whiteboard platform for creating engaging lessons, activities, and interactive presentations. Through this strategic acquisition, Promethean is expected to add to its product portfolio a revenue-generating application tool that addresses one of the most common use cases of its customers. This acquisition will also support the development of new and better solutions that would address teaching, learning, and collaboration needs.

Our gross margin was impacted by various geopolitical and macro challenges during the year, more specifically with respect to tariffs and a lower GBP and Euro relative to USD. On an ex-tariff and forex-neutral basis, Promethean achieved an adjusted gross margin of 30.3%, which is a 2.4 ppt reduction from 32.7% in 2021 that is largely caused by the sell down of our existing ActivPanel 7 inventory since

<sup>4</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.

<sup>5</sup> Our market share of global ex China K12 IFPD shipment volume is 23.7% this year vs 23.0% last year, according to the Futuresource Consulting < Q4 2022 World interactive Display Report>, Mar 2023

<sup>6</sup> We rank the first in global ex China K12 IFPD market, according to the Futuresource Consulting < Q4 2022 World interactive Display Report>, Mar 2023

the launch of ActivPanel 9 in June, and a slightly higher unit material cost for ActivPanel 9 relative to the older model. It should also be noted that the new ActivPanel 9 had an Average Selling Price (ASP) that was 17.0% higher than the ASP of the existing ActivPanel 7 during the year, thanks to its positioning as a next-generation product that includes new features with enhanced simplicity, connectivity, security, adaptability and longevity.

We are also actively expanding our country model with a pipeline of countries in emerging markets. In Egypt, the Company secured an order of 94,000 Promethean panels from the Ministry of Education in the first quarter of 2022. In Thailand, the Company's paid pilot program entered its second phase with an expectation to enter commercial rollout later this year. In China, the Company continued to build on its partnership with the National Center for Education Technology, a unit directly under the Ministry of Education, in building and providing technical support for the National K-12 Smart Education Platform for primary and secondary schools. Such platform was launched in March 2022 with a huge success, amassing over 77 million registered users and 23 billion page views as of March 23, 2023. The monthly active users surpassed 10 million for every month after the launch.

We continued to enhance the cost structure of the education business during the year. Overall core segmental loss of the business for the year narrowed by 27.4% YoY to RMB299 million. Operating expenses as a percentage of revenue decreased by 11.3 ppts YoY, driven by effective cost control initiatives that will also lead to higher operating leverage going forward. Furthermore, despite 11.0% YoY reduction in full year R&D expense, the Company managed to step up its R&D effort in the second half of the year with an aim to expand its offerings into multiple new products due for launch in 2023, designed to broaden its penetration of the market and to bring user experience to a new level.

In 2022, market penetration of interactive flat panels reached a new high of 21%<sup>7</sup> of global K12 classrooms, which in our view represents a critical scale that will enable future scaling of value-added subscription/SaaS-based applications. Looking forward, we believe that we are well-positioned to capture this future revenue stream, thanks to our market leadership in interactive flat panels and our installed base of 1.9 million classrooms. To that end, we announced in June 2022 that Promethean has entered in a strategic partnership with Merlyn Mind, the leader in education AI technology with classroom applications. We are currently building on this partnership to develop an artificial intelligence enabled interactive panel for classrooms, which we plan on launching in our next panel release. We believe the product will be one-of-a-kind product that will not only strengthen our competitive position in classroom technology, but also put us in a position to become a category dominant leader in a new product category.

## **Gaming Business**

A slowdown of the domestic economy in China due to the Covid-19 impact has resulted in a revenue YoY decrease of 5.8% to RMB3.4 billion in 2022 for our gaming business. Mobile gaming revenue remained steady at RMB577 million, representing a modest decrease of 0.2% YoY, outperforming a domestic mobile game market decline of 14.4%<sup>8</sup> YoY in 2022. *Eudemons Pocket Version* continued to

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<sup>7</sup> According to the Futuresource Consulting < Q4 2022 World interactive Display Report>, Mar 2023

<sup>8</sup> According to the China Game Industry Group Committee ("CGIGC") & Gamma Data <China Gaming Industry Report in 2022>, Jan 13th, 2023

deliver strong performance and achieved record-high gross billings, representing a YoY growth of 6.2%, largely a result of the change to a ROI-driven user acquisition strategy, as well as effective content and gameplay updates throughout the year. Our mobile gaming portfolio under the *Eudemons* IP on a combined basis achieved a steady revenue growth of 3.6% YoY. Meanwhile, PC gaming revenue was RMB2.8 billion, representing a 6.9% YoY decrease as we saw short-term impact from Covid-related economic slowdown on spending of our core players during the year in the domestic market. Despite the challenges, we stepped up our effort in making enhancements to the in-game spending mechanisms for our flagship game *Eudemons Online* to optimize our payers' base, resulting in a 28.4% YoY increase in APA for this game. Enhanced playability on the mobile platform also significantly drove user engagement and stickiness, leading to increase of DAU and ACU of *Eudemons Online cross-platform version* by 26.1% and 36.4% YoY, respectively.

Our overseas gaming business continued to deliver strong performance with revenue of RMB540 million, a YoY increase of 6.5%, a growth rate that outperformed the market<sup>9</sup>. Overseas gaming revenue as a percentage of total gaming revenue also increased consecutively for 5 years to 15.7% in 2022. Our *Conquer* IP was the main driver for the growth in 2022 with 48.5% overseas revenue increase YoY to RMB188 million, with the growth mainly driven by solid execution along with easing pandemic controls and market recovery in the Middle East. Meanwhile, we continued to replicate our successful business model in Egypt to new markets including Saudi Arabia, Kuwait, Morocco, the Philippines, the U.S. and Canada. New language versions were launched in Filipino, Turkish and Russian during the year. We also continued to make progress in expanding the overseas market presence of our *Heroes Evolved* IP. In July, the Company launched the Vietnamese pocket version under the *Heroes Evolved* IP, labelled *Loan Chien Mobile*, hailed by local gaming media as the new giant of Vietnamese e-sports. In August, the Company signed an exclusive licensing agreement with a renowned global publisher for AAA games to co-launch *Under Oath* in major international markets starting in Japan in 2023. *Neopets: Faerie's Hope*, the Company's first match-three game, was launched in the U.S., Canada, the U.K., Germany and France in December 2022, which saw its next-day retention rate and three-day retention rate in the top 5-10% of titles in the same genre. Our flagship metaverse Web 3.0 game *Neopets Metaverse* also hit another major milestone in January 2023 by completing a US\$4 million financing round with participation from industry leaders including Polygon Ventures, Blizzard Avalanche Ecosystem Fund, Hashkey Capital and IDG Capital. *Neopets Metaverse* is expected to launch its initial metaverse offering (IMO) later this year.

Our plan in 2023 will be to significantly expand our pipeline of new games, in conjunction with driving revenue growth for our existing games. During 2022, we stepped up our investment in R&D to put ourselves in a stronger position to capitalize on the market rebound anticipated for 2023, as we saw our gaming R&D expense increased by 16.7% YoY to RMB768 million, accounting for 22.4% of gaming revenue. Our R&D headcounts increased by over 300 in 2022, hence significantly strengthening our development competencies and resulting in an increase of both the quality and quantity of our pipeline of new games. We are expecting a total of 5 new games under the *Eudemons* IP to be launched in 2023 and 2024, the first of which is *Eudemons Mobile II*, which was successfully launched in March 2023. We also have new games in the pipeline under our *Under Oath* and *Heroes Evolved* IP, as well as new IPs to be announced. Last but not least, we expect to actively explore acquisition opportunities in order to further expand our market reach and core competencies.

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<sup>9</sup> The revenue of Chinese game development companies in the overseas market decreased by 3.7% YoY, according to the China Game Industry Group Committee ("CGIGC") & Gamma Data <China Gaming Industry Report in 2022>, Jan 13th, 2023

## Management Conference Call and Webcast

NetDragon’s management team will hold a conference call and webcast at 10:00 am Hong Kong time on March 28, 2023 (or 10:00 pm, Eastern Time on March 27, 2023) 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	9143528#

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 should visit the website 10 minutes prior to the call, then click on the icon titled “2022 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 2022**

	2022	2021
	RMB million	RMB million
<b>Revenue</b>	<b>7,866</b>	7,036
Cost of revenue	<b>(3,551)</b>	(2,513)
<b>Gross profit</b>	<b>4,315</b>	4,523
Other income and gains	<b>223</b>	224
Impairment loss under expected credit loss model, net of reversal	<b>(14)</b>	(8)
Selling and marketing expenses	<b>(945)</b>	(956)
Administrative expenses	<b>(975)</b>	(956)
Research and development costs	<b>(1,224)</b>	(1,160)
Other expenses and losses	<b>(213)</b>	(266)
Share of results of associates and joint ventures	<b>(17)</b>	(16)
<b>Operating profit</b>	<b>1,150</b>	1,385
Interest income on pledged bank deposits	-	1
Exchange (loss) gain on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	<b>(73)</b>	19
Fair value change on financial assets at fair value through profit or loss	<b>(33)</b>	20
Fair value change on derivative financial instruments	<b>15</b>	(3)
Finance costs	<b>(219)</b>	(186)
<b>Profit before taxation</b>	<b>840</b>	1,236
Taxation	<b>(76)</b>	(253)
<b>Profit for the year</b>	<b>764</b>	983



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	47	(25)
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Item that will not be reclassified to profit or loss:

Fair value change on equity instruments at fair value through other comprehensive income	(2)	(2)
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Other comprehensive income (expense) for the year	45	(27)
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Total comprehensive income for the year	809	956
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Profit (loss) for the year attributable to:

- Owners of the Company	834	1,062
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- Non-controlling interests	(70)	(79)
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	764	983
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Total comprehensive income (expense) for the year attributable to:

- Owners of the Company	879	1,036
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- Non-controlling interests	(70)	(80)
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	809	956
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RMB cents

RMB cents

**Earnings per share**

- Basic	154.15	191.67
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- Diluted	154.14	191.58
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2022**

	2022	2021
	RMB million	RMB million
<b>Non-current assets</b>		
Property, plant and equipment	1,936	1,940
Deposits made for acquisition of property, plant and equipment	5	5
Right-of-use assets	380	428
Investment properties	59	77
Goodwill	287	217
Intangible assets	739	772
Interests in associates and joint ventures	34	50
Equity instruments at fair value through other comprehensive income	56	8
Financial assets at fair value through profit or loss	404	266
Loan receivables	8	8
Other receivables, prepayments and deposits	89	38
Deferred tax assets	347	135
	<u>4,344</u>	<u>3,944</u>
<b>Current assets</b>		
Properties under development	343	317
Properties for sale	303	205
Inventories	807	685
Financial assets at fair value through profit or loss	84	2
Loan receivables	4	22
Trade receivables	654	832
Other receivables, prepayments and deposits	549	494
Amounts due from joint ventures	5	3
Tax recoverable	29	25
Restricted bank balance and pledged bank deposits	1	9
Bank deposits with original maturity over three months	207	630
Cash and cash equivalents	3,701	3,717
	<u>6,687</u>	<u>6,941</u>



**Current liabilities**

Trade and other payables	1,513	1,455
Contract liabilities	406	357
Lease liabilities	67	64
Provisions	94	89
Derivative financial instruments	31	43
Bank borrowings	737	403
Convertible and exchangeable bonds	16	15
Tax payable	100	128

**2,964** 2,554

**Net current assets**

**3,723** 4,387

**Total assets less current liabilities**

**8,067** 8,331

**Non-current liabilities**

Other payables	19	11
Lease liabilities	50	95
Bank borrowings	2	-
Convertible and exchangeable bonds	1,317	1,070
Convertible preferred shares	-	-
Deferred tax liabilities	80	80

**1,468** 1,256

**Net assets**

**6,599** 7,075

**Capital and reserves**

Share capital	40	40
Share premium and reserves	6,859	7,275
Equity attributable to owners of the Company	<b>6,899</b>	7,315
Non-controlling interests	<b>(300)</b>	(240)
	<b>6,599</b>	7,075

## UNAUDITED RECONCILIATIONS OF GAAP AND NON-GAAP RESULTS

	2022	2021
	(Unaudited)	(Unaudited)
	RMB million	RMB million
<b>Operating profit</b>	<b>1,150</b>	1,385
Add:		
Share-based payments expense	6	14
Amortization of intangible assets arising on acquisitions of subsidiaries	56	64
Impairment loss of intangible assets, inventories and goodwill	103	21
Impairment of interest in an associate	-	23
<b>Non-GAAP operating profit</b>	<b>1,315</b>	1,507
<b>Profit attributable to owners of the Company</b>	<b>834</b>	1,062
Add:		
Share-based payments expense	6	14
Amortization of intangible assets arising on acquisitions of subsidiaries	43	49
Impairment loss of intangible assets, inventories and goodwill	100	12
Impairment of interest in an associate	-	20
Finance costs	199	168
Fair value (gain) loss on derivative financial instruments	(15)	3
Fair value loss (gain) on financial assets at fair value through profit or loss	32	(21)
Exchange loss (gain) on financial assets at fair value through profit or loss, bank borrowings, convertible and exchangeable bonds and derivative financial instruments	63	(16)
Interest income on pledged bank deposits	-	(1)
<b>Non-GAAP profit attributable to owners of the Company</b>	<b>1,262</b>	1,290