

NetDragon Announces 2023 Interim Financial Results

Gaming Recovery on Track with Record High Revenue

(Hong Kong, 30 August 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 the first half of 2023. NetDragon’s management team will hold a webcast at 10:00am Hong Kong time on 31 August 2023 to discuss the results and recent business development.

Dr. Dejian Liu, Chairman of NetDragon, commented: “As China entered into a new post-pandemic era, we were able to capitalize on the domestic economic recovery as our gaming business resumed its growth trajectory in the first half of 2023, achieving revenue of RMB1.9 billion, an 8% increase YoY. We remained focus on executing our multi-pronged strategy of driving consistent revenue growth of our existing flagship games, continually investing in R&D to expand our pipeline of new games, as well as driving innovation with new technologies. As a result, our revenue growth for the period significantly exceeded the market growth again both in the PC and mobile segments¹. This is a testament to not just the strength of our IPs, but more importantly, the deep capabilities of our team.”

“Our education business recorded a decline in revenue along with the broader market, as the industry entered into a digestion period after the Covid-driven demand spike in the last 2 to 3 years. Despite the temporary slowdown in shipment volumes, we maintained our global ex-China market share leadership² as we continued to achieve high win rates in the market. During the first half, we successfully launched our new ActivPanel LX which targets the “value” segment and enables us to address a significant share of the global addressable market, where users look for affordable, yet high-quality solutions. We also stepped up our development effort related to software monetization as we continued to make progress towards providing AI-enabled tools that are integrated with our panels with the goal of driving recurring revenue.”

“We are proud to report positive progress made on the ESG front. In the first half of 2023, our S&P Global Sustainability Score increased to 40 points, putting NetDragon in the top 7% of the “interactive media, services, and home entertainment industry” assessed by S&P Global. NetDragon was also rated in the “low-risk” category by prominent rating agency Morningstar Sustainalytics. And in July 2023, we were honored as a “Gaming Company with Outstanding Social Responsibility” by People’s Daily Online for five consecutive years.”

“We remain committed to our capital return initiative, and therefore we are pleased to announce that the Board declared a special interim dividend of HK\$1.0 and an interim dividend of HK\$0.4 per ordinary share for the first half of 2023.”

¹ According to the China Game Industry Group Committee (“CGIGC”) & Gamma Data <China Gaming Industry Report, Jan-Jun 2023>, Jul 27th, 2023

² We were ranked the first in global ex-China K-12 IFPD market, according to the Futuresource Consulting <Q2 2023 World interactive Display Report>, Aug 2023

2023 First Half Financial Highlights

- Revenue was RMB3.7 billion, representing a 13% decrease YoY.
- Revenue from the gaming business was RMB1.9 billion, representing 52% of the Group's total revenue and an 8% increase YoY.
- Revenue from the education business was RMB1.7 billion, representing 47% of the Group's total revenue and a 29% decrease YoY.
- Gross profit was RMB2.3 billion, representing a 2% decrease YoY.
- Core segmental profit³ from the gaming business was RMB1.1 billion, representing a 9% increase YoY.
- Core segmental loss³ from the education business was RMB249 million, compared to RMB36 million in the same period last year. The increase is due to lower revenue and gross profits in the education segment, whereas our total education core segmental operating expenses were largely flat.
- Operating profit was RMB699 million, representing a 6% decrease YoY.
- Non-GAAP operating profit⁴ was RMB692 million, representing a 19% decrease YoY.
- EBITDA was RMB917 million, representing a 5% increase YoY.
- Non-GAAP EBITDA⁴ was RMB864 million, representing a 16% decrease YoY.
- Profit attributable to owners of the Company was RMB500 million, representing a 12% decrease YoY.
- Non-GAAP profit attributable to owners of the Company⁴ was RMB589 million, representing a 28% decrease YoY.
- The Company declared a special interim dividend and an interim dividend of HK\$1.0 and HK\$0.4 per ordinary share respectively, for the six months ended 30 June 2023.

³ Core segmental profit (loss) figures are derived from the Group'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, write-down of inventories, fair value change and exchange gain on financial assets at fair value through profit or loss ("FVTPL"), fair value change and exchange loss on derivative financial instruments, interest expense and exchange loss on convertible and exchangeable bonds, redundancy payments, legal and professional fees for proposed spin-off, and reversal of impairment loss of intangible assets.

⁴ 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, write-down of inventories, fair value change on financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, reversal of impairment loss of intangible assets and exchange loss on financial assets at FVTPL, convertible and exchangeable bonds and derivative financial instruments.



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Segmental Financial Highlights

(RMB million)	2023 First Half		2022 First Half		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	1,920	1,720	1,776	2,410	+8%	-29%
Gross Profit	1,858	419	1,699	610	+9%	-31%
Gross Margin	97%	24%	96%	25%	+1 ppts	-1 ppts
Core Segmental Profit (Loss) ³	1,094	(249)	1,006	(36)	+9%	+592%
Segmental Operating Expenses ⁵						
- Research and development	(411)	(225)	(353)	(226)	+16%	0%
- Selling and marketing	(187)	(238)	(188)	(252)	-1%	-6%
- Administrative	(156)	(192)	(152)	(177)	+3%	+8%

Gaming Business

Our gaming business achieved record high revenue of RMB1.9 billion, representing an increase of 8% YoY and 16% HoH on the back of our solid business execution and gradual macro recovery in China leading to resurgence of players' spending in our games. The trend of such recovery is evident from the fact that we achieved consecutive quarterly gaming revenue growth from Q3 2022 to Q2 2023.

During the first half, our domestic gaming business achieved revenue growth of 9% YoY, which significantly exceeded the market growth of 2%⁶, demonstrating the exceptional resilience of our flagship IPs and the stickiness of our gaming communities. In the overseas segment, we achieved 4% YoY revenue growth during the period, compared to the negative market growth of 9%⁷. We also achieved revenue growth in both PC and mobile segments. Revenue from PC games amounted to RMB1.6 billion, accounting for 84% of total gaming revenue with an 8% YoY growth. Mobile game revenue reached RMB312 million, accounting for 16% of total gaming revenue and registering a 7% YoY growth.

We continued to generate revenue growth from a combination of our existing games and new games. During the first half, our existing gaming portfolio generated the bulk of our revenue growth as we continued to execute our strategy to leverage upon the large base of players within our existing games with ultra-strong retention period, and to consistently strengthen communities and coming up with quality content updates and innovation within the games. This strategy has resulted in sustainable revenue growth that is evident in the operating history of our flagship games.

⁵ 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.

⁶ According to the China Game Industry Group Committee ("CGIGC") & Gamma Data <China Gaming Industry Report, Jan-Jun 2023>, Jul 27th, 2023

⁷ Revenue of Chinese self-developed games from overseas market, according to the China Game Industry Group Committee ("CGIGC") & Gamma Data <China Gaming Industry Report, Jan-Jun 2023>, Jul 27th, 2023

Our *Eudemons* IP delivered a solid first half as our flagship *Eudemons PC* game achieved revenue growth of 10% YoY and 22% HoH. In addition, revenue of mobile games under the *Eudemons* IP increased by 10% YoY and 11% HoH. The strong performance is a result of our consistent, systematic effort in introducing new gameplay mechanics, content updates, as well as striking the optimal balance within the gaming ecosystem that results in the most fun gaming experience for different types of players. In particular, our *Eudemons Online cross-platform (mobile) version* saw HoH increase of 32% in MAU and 16% in APA, highlighting an increasing number of *Eudemons PC* players benefiting from an enhanced playing experience with both smartphones and PC. To further drive revenue growth, we launched a total of 4 expansion packs under the *Eudemons* IP, and also launched our new game *Eudemons Mobile 2* in March.

We continued to make progress in revitalizing our *Heroes Evolved* IP as we achieved a turnaround with HoH revenue increase of 12% for games under this IP on the back of a successful IP crossover partnership with the trendy anime IP, *Bofuri: I Don't Want to Get Hurt, so I'll Max Out My Defense*. We continued to calibrate the balance of gameplay for enhanced experience and expect to utilize targeted marketing techniques to step up our players' acquisition. To generate longer term growth, we are currently developing the 2.0 version of our flagship *Heroes Evolved* mobile game and expect to launch in the overseas market.

We also made progress in the application of generative AI (aka. AIGC) in the operations of our gaming business. We have seen the application of AIGC leading to significant increase in our efficiency in gaming content production, and we expect that we will continue to ramp up the efficiency curve. We also initiated multiple projects on AIGC with the objective of optimally utilizing AI to enhance our players' experience, including projects in the areas of intelligent NPC and AI gaming companion.

Looking forward, we expect a solid second half of the year ahead of us as we build on our accomplishments in the first half. We expect to make substantial progress with the development of new games in the pipeline, including multiple MMORPG and MOBA games that leverage our core development capabilities, as well as games that provide new experience for our gamers including an idle card game and a casual board game.

Education Business

Revenue from our education business was RMB 1.7 billion, a decrease of 28.6% YoY, as the global interactive flat panel market entered into a post-pandemic digestion period, which is a result of demand spikes in the past 2 to 3 years as countries around the world accelerated their edtech adoption at an unprecedented pace to address students' learning needs during the pandemic. This pace of adoption was highlighted by the fact that interactive flat panel ("IFP") shipment values in the education sector globally increased at an average annual rate of 28% in 2021 and 2022, compared

to 13% in 2019 and 2020⁸. In addition, our shipment growth significantly exceeded these already higher-than-normal market growth rates in the past 2 years.

During the period, we maintained our global ex-China market leadership position, and our market share was No.1 in all 5 of our top markets including the United States, Germany, the United Kingdom, Italy and the U.A.E⁹. In May 2023, we reached a major product milestone with the launch of our ActivPanel LX, a lower-priced panel that enables us to enter a sizable segment of our global addressable market. We estimate this low-to-mid end segment represents 40-50% of the entire IFP market in terms of shipment volumes, as a growing number of schools look for simple, easy-to-use and affordable panels. Our ActivPanel LX is designed to precisely address these needs, and at a price that is a fraction of our higher-end ActivPanel 9 model. We also expect Promethean's existing market leadership and strong brand premium to further drive adoption of these panels, as there is a large market looking for high-quality low-end panels made by a top brand that they can trust. In addition, our ActivPanel LX product also targets a sizable replacement market. According to third-party research firm Futuresource, classrooms around the world are currently using over 5 million units of interactive whiteboards¹⁰, which are products of an older technology and are being rapidly phased out. We believe the affordable feature of LX combined with our Promethean brand and quality will put us in the best position in the market to capitalize on this opportunity.

As we started shipment of the product following the May product launch, revenue from ActivPanel LX only represented 4% of Promethean's revenue in the first half. As we continue to generate sales momentum, we expect this share to trend up in the coming quarters. We are also pleased to see a highly significant share of our LX sales pipeline coming from new customer accounts (ie. customers not using Promethean panels), a metric that highlights our ability to take market share away from our competitors in this lower end product category.

Our adjusted gross margin (ex-tariff) for our Promethean subsidiary in the first half was 28.4%, a 2.5 ppt increase compared to the second half of 2022 as we sold down most of our ActivPanel 7 panels in 2022, hence allowing our overall margin to benefit more significantly from the higher ASP of ActivPanel 9 due to the more favorable product mix. During the period, the blended gross ASP of our panels was US\$2,267, a 6% increase compared to the second half of 2022. Our ASP increase was due to ActivPanel 9 representing a higher share of our shipment volume, offset partially by the lower ASP of our new lower-end LX panel product. The launch of the ActivPanel 9 in June 2022 and the ActivPanel LX in May of this year also underscored a more optimal segmentation of our product lines which better cater to the needs of different types of users and allow us to generate higher revenue over the long run. In particular, our ASP for ActivPanel 9 since launched was over 30% higher than

⁸ Shipment values in global education IFPD market, according to the Futuresource Consulting <Q1 2023 World Interactive Displays Market Report>, Apr 2023, and <Q1 2022 World Interactive Displays Market Report>, June 2022

⁹ Shipment volume in global ex-China K-12 IFPD market, according to the Futuresource Consulting <Q2 2023 World Interactive Displays Market Report>, Aug 2023

¹⁰ According to the Futuresource Consulting <Q1 2023 World Interactive Displays Market Report>, Apr 2023

ASP of ActivPanel 7¹¹ as customers get more value from our premium panel with a higher ASP, whereas our ASP for ActivPanel LX in the first half of 2023 was 31% lower than ActivPanel Nickel (the entry-level model of our previous ActivPanel 7), hence targeting a whole new segment of users by dramatically lowering the barrier of ownership.

We continued to heavily invest in research and development to enable AI monetization on our panels with the goal of generating recurring software revenue at scale. We were able to accelerate the development effort thanks to our acquisition of Explain Everything in November 2022, which provides the foundational platform that many of our future tools and features will be built on. Our plan is to generate subscription revenue by providing tools that not only seamlessly integrate with our hardware for the best user experience, but also address the true needs of teachers leveraging our understanding of our large user base. We currently expect to release the first software subscription package with integration of Promethean panels by the end of the year. We are also in active discussion with our partners to explore collaboration in large language models.

In China, we continued to work with the National Center for Education Technology (“NCET”), a unit directly under the Ministry of Education. In July 2023, we were awarded the tender to implement a software development project for the National K-12 Smart Education Platform for primary and secondary schools. This project aims to upgrade and enhance this platform's functionalities in order to support large-scale and normalized online learning, as well as to create an ecosystem for the development and sharing of digital resources among all primary and secondary schools in China. Such platform was launched in March 2022 with broad-based countrywide adoption, amassing over 84 million registered users and 25 billion page views as of end of the first half.

In April 2023, we reached a key milestone with our announcement of the signing of a merger agreement to spin off our overseas education business for listing on NYSE. Based on the agreement, NetDragon, through its subsidiary, will merge its core overseas education business with Gravitass Education Holdings at a valuation of US\$750 million (or US\$800 million for the combined merged entity). We believe this strategic move will not only broaden the financing alternatives of our overseas education business, but also provide an independent platform with strong governance to drive sustainable growth going forward.

Going forward, we are well positioned to drive revenue growth for our education business with our enhanced product segmentation. Our complete product line from low to high end will enable us to capture a much larger revenue opportunity in the IFP market. Last but not least, we remain highly committed to our path to provide AI-enabled tools to be integrated with our panels to put us in position to generate recurring subscription revenue.

- End -

¹¹ Over 30% higher ASP for ActivPanel 9 in both 1H 2023 and 2H 2022 (ActivPanel 9 was launched in June 2022)

Management Conference Call and Webcast

NetDragon's management team will hold a conference call and webcast at 10:00am Hong Kong time on 31 August 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	9504031#

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 "2023 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 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Revenue	3,681	4,240
Cost of revenue	(1,394)	(1,917)
Gross profit	2,287	2,323
Other income and gains	120	44
Impairment loss under expected credit loss model, net of reversal	-	(9)
Selling and marketing expenses	(443)	(442)
Administrative expenses	(570)	(464)
Research and development costs	(641)	(586)
Other expenses and losses	(50)	(112)
Share of results of associates and joint ventures	(4)	(9)
Operating profit	699	745
Exchange loss on financial assets at fair value through profit or loss, convertible and exchangeable bonds and derivative financial instruments	(35)	(42)
Fair value change on financial assets at fair value through profit or loss	35	(32)
Fair value change on derivative financial instruments	15	8
Finance costs	(135)	(99)
Profit before taxation	579	580
Taxation	(126)	(38)
Profit for the period	453	542



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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	61	17
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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	(1)	(1)
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Other comprehensive income for the period	60	16
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Total comprehensive income for the period	513	558
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Profit (loss) for the period attributable to:

- Owners of the Company	500	565
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- Non-controlling interests	(47)	(23)
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	453	542
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Total comprehensive income (expense) for the period
attributable to:

- Owners of the Company	557	582
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- Non-controlling interests	(44)	(24)
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	513	558
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RMB cents

RMB cents

Earnings per share

- Basic	92.61	104.42
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- Diluted	92.61	104.40
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
	RMB million	RMB million
Non-current assets		
Property, plant and equipment	1,945	1,936
Deposits made for acquisition of property, plant and equipment	5	5
Right-of-use assets	356	380
Investment properties	61	59
Goodwill	302	287
Intangible assets	822	739
Interests in associates and joint ventures	35	34
Equity instruments at fair value through other comprehensive income	55	56
Financial assets at fair value through profit or loss	432	404
Loan receivables	10	8
Other receivables, prepayments and deposits	80	89
Deferred tax assets	391	347
	4,494	4,344
Current assets		
Properties under development	394	343
Properties for sale	303	303
Inventories	581	807
Financial assets at fair value through profit or loss	105	84
Loan receivables	54	4
Trade receivables	854	654
Other receivables, prepayments and deposits	528	549
Amounts due from joint ventures	6	5
Tax recoverable	33	29
Restricted bank balance and pledged bank deposits	13	1
Bank deposits with original maturity over three months	515	207
Cash and cash equivalents	3,645	3,701
	7,031	6,687



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Current liabilities

Trade and other payables	1,284	1,513
Contract liabilities	403	406
Lease liabilities	60	67
Provisions	123	94
Derivative financial instruments	16	31
Bank borrowings	941	737
Convertible and exchangeable bonds	17	16
Dividend payables	197	-
Tax payable	112	100

	<u>3,153</u>	<u>2,964</u>
Net current assets	3,878	3,723
Total assets less current liabilities	8,372	8,067

Non-current liabilities

Other payables	16	19
Lease liabilities	35	50
Bank borrowings	1	2
Convertible and exchangeable bonds	1,452	1,317
Convertible preferred shares	-	-
Deferred tax liabilities	79	80

	<u>1,583</u>	<u>1,468</u>
Net assets	6,789	6,599

Capital and reserves

Share capital	39	40
Share premium and reserves	7,093	6,859
Equity attributable to owners of the Company	<u>7,132</u>	<u>6,899</u>
Non-controlling interests	(343)	(300)
	<u>6,789</u>	<u>6,599</u>



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UNAUDITED RECONCILIATION OF GAAP AND NON-GAAP MEASURES

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Operating profit	699	745
Share-based payments expense	2	3
Amortisation of intangible assets arising on acquisitions of subsidiaries	30	27
(Reversal of impairment loss) impairment loss of intangible assets	(43)	55
Write-down of inventories	4	24
Non-GAAP operating profit	692	854
Profit attributable to owners of the Company	500	565
Share-based payments expense	2	3
Amortisation of intangible assets arising on acquisitions of subsidiaries	24	21
(Reversal of impairment loss) impairment loss of intangible assets	(43)	55
Write-down of inventories	4	22
Exchange loss on financial assets at fair value through profit or loss, convertible and exchangeable bonds and derivative financial instruments	30	36
Finance costs	122	90
Fair value change on financial assets at fair value through profit or loss	(35)	32
Fair value change on derivative financial instruments	(15)	(8)
Non-GAAP profit attributable to owners of the Company	589	816