

NetDragon Announces 2024 Interim Financial Results

EBITDA up 13% as stage is set for next growth phase

(Hong Kong, 29 August 2024) NetDragon Websoft Holdings Limited (“NetDragon” or the “Company”; Hong Kong Stock Code: 777), a global leader in building internet communities, today announced its financial results for the first half of 2024. NetDragon’s management team will hold a results presentation and webcast at 10:00am Hong Kong time on 30 August 2024 to discuss the results and recent business development.

Dr. Dejian Liu, Chairman of NetDragon, commented: “In the first half of the year, we delivered results that demonstrate both our resilience in the face of short-term challenges and our focus in building products to strengthen our competitive position and drive long-term growth. Our domestic PC gaming business delivered revenue of RMB1.36 billion, an increase of 2.1% YoY driven by our focus in driving engagement and retention of players. We believe as players’ spending habits are clearly trending towards games with high quality contents and highly acclaimed IP, our iconic and non-replicable flagship IPs, together with our business model of building high quality games around these IPs, put us in a great position to differentiate and drive sustainable growth. With that being said, our overall gaming revenue in the first half was affected by our overseas revenue which declined by 12.9% YoY due to short-term temporary issues, and we are confident to emerge in the second half with a stronger performance. Our confidence stems from the fact that the execution of our growth strategy remains on track with many positive news to share. Our new game *Code-Alpha* is expected to be launched in the second half and will be expanding into several countries. We also received encouraging metrics from our testing of *Under Oath Overseas Version* which puts us on track to launch this new ACGN game in the Japanese market within the next 6 to 9 months. In addition, we have received very positive players’ feedback for our new roguelike top-down shooter game *Nebula Rangers* that featured a second place on the TapTap platform’s ranking of new games, coupled with a user score of 8.0. We expect this game to launch globally in 2025 and has the potential to become a new major title with high DAU.”

“Turning to our education business, our overseas education subsidiary, Mynd.ai, continued to go through a stage of industry transformation that presents both challenges and opportunities. On the one hand, we continued to see softening hardware shipment as education authorities are still reacting to a broad normalization of budgets post-Covid, and from a macro standpoint, inflation also played a role in affecting budget allocation decisions of schools. On the other hand, we believe the market is in a very early stage of transitioning from a hardware-centric model to an integrated software and service-based model, which presents a transformational opportunity, especially for Mynd.ai as the incumbent market leader in our addressable markets with an installed base of over 1 million classrooms.”

“In recent months, NetDragon has also made remarkable progress in our country-level initiatives in Thailand and the Kingdom of Saudi Arabia. In particular, we have announced a strategic initiative to develop *aom-ai*, a state-of-the-art AI education platform, with the support by the Ministry of Higher Education, Science, Research and Innovation in Thailand. This learning platform, which combines our cutting-edge education technologies with deep local insights of learners in the local market, is set for launch later this year. In Saudi Arabia, we are also working closely with the Ministry of Education on several exciting education technology initiatives in markets including K12 learning as well as technical and vocational training segments.”

2024 First Half Financial Highlights

- Revenue was RMB3.30 billion, representing a 10.3% decrease YoY.
- Revenue from the gaming and application services was RMB2.12 billion, representing 64.3% of the Company’s total revenue and a 0.8% decrease YoY.
- Revenue from Mynd.ai was RMB1.18 billion, representing 35.7% of the Company’s total revenue and a 23.5% decrease YoY.
- Gross profit was RMB2.20 billion, representing a 3.8% decrease YoY.
- Core segmental profit¹ from the gaming and application services was RMB688 million, representing an 11.5% decrease YoY.
- Core segmental loss¹ from Mynd.ai was RMB111 million, compared to a loss of RMB48 million in the first half of last year.
- Operating profit was RMB634 million, representing a 9.3% decrease YoY.
- Non-GAAP operating profit² was RMB640 million, representing a 7.5% decrease YoY.
- EBITDA was RMB1.04 billion, representing a 12.9% increase YoY.
- Non-GAAP EBITDA² was RMB1.15 billion, representing a 33.1% increase YoY.
- Profit attributable to owners of the Company was RMB400 million, representing a 20.0% decrease YoY.
- Non-GAAP profit attributable to owners of the Company² was RMB558 million, representing a 5.3% decrease YoY.
- The Company declared an interim dividend of HKD0.40 per ordinary share for the six months ended 30 June 2024.

¹ 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, impairment loss (net of reversal), 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 and convertible note, redundancy payments, legal and professional fees for spin-off and reversal of impairment loss of intangible assets.

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, write-down of inventories, fair value change on investment properties, fair value change on financial assets at FVTPL, fair value change on derivative financial instruments, finance costs, deferred tax, reversal of impairment loss of intangible assets, gain on disposal of intangible assets and exchange gain on pledged bank deposits, financial assets at FVTPL, convertible and exchangeable bonds and derivative financial instruments.



Segmental Financial Highlights

(RMB million)	2024 First Half		2023 First Half		Variance	
	Gaming and application services	Mynd.ai	Gaming and application services	Mynd.ai	Gaming and application services	Mynd.ai
			(Restated)	(Restated)		
Revenue	2,121	1,180	2,139	1,542	-0.8%	-23.5%
Gross profit	1,849	351	1,896	392	-2.5%	-10.5%
Gross margin	87.2%	29.7%	88.6%	25.4%	-1.4 ppts	+4.3 ppts
Core segmental profit (loss) ¹	688	(111)	777	(48)	-11.5%	+131.3%
Segmental operating expenses ³						
- Research and development	(595)	(101)	(542)	(99)	+9.8%	+2.0%
- Selling and marketing	(210)	(139)	(240)	(187)	-12.5%	-25.7%
- Administrative	(324)	(200)	(361)	(145)	-10.2%	+37.9%

Gaming Business

Our gaming revenue, which represents 87.8% of gaming and application services revenue, reached RMB1.86 billion in the first half, representing a 1.3% increase HoH and a 3.0% decrease YoY. Our focus in the first half was two-fold. On the one hand, we focused on deepening engagement of users through our ever-increasing quality of gaming experience for our existing games, hence leading to strong retention of users that pave the way for long-term sustainability of our existing games. On the other hand, we made remarkable progress in the development and testing of our new games in the pipeline, and we are pleased to have seen some promising metrics and feedback that put us in a strong position to grow our revenue in the next 6 to 12 months.

During the first half, domestic PC game revenue was RMB1.36 billion, marking a YoY increase of 2.1% and a HoH increase of 5.3%. Our three major IPs, *Eudemons*, *Conquer* and *Heroes Evolved*, all recorded both YoY and HoH growth for their respective domestic PC gaming revenues. The stable growth of our existing games is a result of our focus in expanding our gaming contents towards an optimal combination of content-driven and numerical attributes-driven spending that leads to higher quality of gaming experience over time.

³ Segmental operating expenses exclude unallocated expenses/income such as directors' fee and salaries, 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.

Our top flagship IP *Eudemons* generated a total revenue of RMB1.69 billion during the period, representing a 0.6% HoH increase and a 3.8% YoY decrease. The performance of *Eudemons* IP in the first half was affected largely by two factors, namely (1) stable HoH performance of our existing *Eudemons* games during the period while we put our focus in working towards the launch of our next new *Eudemons* game, *Eudemons Remake Version*, which is scheduled to launch in Q1 of next year, and (2) short-term disruptive bot issues experienced in the overseas version of *Eudemons Online*, where measures have already been put in place to put the game back on growth track.

We continued to focus on enhancing quality of experience for our players leading to YoY growth of both gameplay-driven and content-driven revenue of our flagship game *Eudemons Online* in the domestic market during the first half. In particular, our measures include enhancing the depth and richness of different character roles, optimizing our graphics and in-game music, and integrating “Guofeng” and cultural elements to resonate with the interests and passion of many of our players.

Going forward, we expect to implement a multi-pronged growth strategy for the *Eudemons* IP, including achieving stable growth for our existing games, launching the *Eudemons Remake Version* and *Eudemons Pocket Version 2.0* (in early 2025 and 2026 respectively) to target the huge existing pool of *Eudemons* IP players with a market-proven revenue model, as well as developing a new *Eudemons* PC game to be launched in the second half of 2025 to target both brand new players and existing player pool. We believe this strategy will bring the revenue scale of the *Eudemons* IP to a new level, and will drive revenue growth for many years to come.

Our *Heroes Evolved* IP continued to make positive progress in the first half, both from a revenue growth standpoint and a long-term strategic development standpoint. In particular, our *Heroes Evolved* PC game continued its momentum and delivered three consecutive reporting periods of revenue growth with a 29.6% increase in revenue YoY in the first half, driven by significant enhancements in overall gameplay and success in utilizing e-sports events to “activate” our players, leading to increase in players’ retention, APA and ARPU during the period. We also saw a 28% increase in the number of e-sports teams participating in our summer season competition, as well as a 71% increase in the audience number compared to the same competition in the autumn season last year. In terms of expanding our mobile revenue for *Heroes Evolved*, we are in testing stage for our new mobile game *Code-Nirvana* and target to launch the game in 2025.

Our *Conquer* IP delivered strong result in the domestic market with a 6.6% YoY increase in revenue, driven by two major content updates and the introduction of new innovative gameplays. In Egypt, our largest overseas market for *Conquer Online*, user spending dropped slightly by 1.3% YoY (on basis of local currency) mainly due to short-term restriction in electricity consumption (such restriction has subsequently been suspended in July, and it is expected that the electricity shortage will be resolved

by the end of this year⁴). Despite the short-term revenue decline, we continued to gain traction with monetization, as our APA grew by 16.7% YoY. We are also making notable progress in expanding the casual gameplay within the game, with casual players increasing by 12.7%, laying the foundation for a larger revenue base going forward.

We also made great strides in executing our long-term strategy of expanding our IP and genre. Our new roguelike top-down shooter game under development *Nebula Rangers* started testing on TapTap in July and received a user score of 8.0. The game is expected to launch globally in 2025 and has the potential to become a new high DAU title. Furthermore, our new casual game *Code-Alpha* started testing in the overseas markets in June with positive results, and we expect meaningful revenue contribution from this game for the rest of the year with the potential to open up a new track for a casual entertainment genre. We are also making inroad in the ACGN genre as we received positive testing metrics in the overseas market for *Under Oath* after several rounds of game refinement in the past 12 months, and we currently believe there is strong visibility to launch the game in the first half of 2025. Last but not least, we are in the testing stage for our other new games including *Miracland Saga*, a new MMORPG to focus on the overseas market, and *Huan Kong Cheng Zhan Ge* to target the idle card game segment.

Looking forward in terms of our new game pipeline as a whole, we expect to drive growth of our overall revenue and profitability by delivering on our new game launches in the number of 4-5 new titles in the coming 6-9 months spanning across both our existing flagship IPs and new IPs.

⁴ According to news article: [Egypt to stop load-shedding power cuts on Sunday: PM Madbouly](#), *Ahram Online*, 17 July 2024

Mynd.ai

Our overseas education subsidiary, Mynd.ai, has experienced a continued industry-wide softening demand trend throughout most of its key geographic markets. After several years of high funding as a result of COVID-related government relief programs, local education authorities are still reacting to a broad normalization of budgets which affected hardware revenue for all players in the interactive flat panel market during the period. In addition, inflation has also led to higher recurring overhead costs for schools that affected budget allocation decisions for many of our customers.

The key financial milestones for Mynd.ai in the first half of the year are as follows:

- Revenue of RMB1.18 billion compared to RMB1.54 billion in the first half of the prior year, with the decrease primarily driven by reduced spending by key customers due to the softer industry demand
- Gross margins increased 430 basis points to 29.7% primarily due to increased operational efficiencies leading to cost savings in a number of areas, including lower component material pricing, freight and other savings as a result of moving part of the manufacturing process to Mexico, as well as lower warranty costs due to observed lower failure rates on our ActivPanel 9 and our ActivPanel LX models
- Cash flow from operations improvement of RMB34 million compared to the same period in the prior year⁵
- Cash position of RMB494 million with available existing credit line
- Adjusted EBITDA loss of RMB40 million, a slight 7.5% YoY improvement (despite the decline in revenue) primarily driven by optimization of overhead costs⁵
- Net loss of RMB340 million compared to a loss of RMB109 million in the same period in the prior year, primarily due to the recording of a one-time non-cash valuation allowance against deferred tax assets in the amount of RMB294 million⁵ (excluding this one-time effect, net loss narrowed by 58.0% YoY)
- Management continuing to implement cost saving measures to mitigate effects of headwinds in the hardware market

Despite the near-term challenges, we are confident in our business model and are well positioned to prioritize and streamline our operations and navigate the market challenges, as evidenced by our margin improvement. As we continue to pursue cost optimization initiatives and evaluate our capital

⁵ From Form 6-K filing of Mynd.ai, in accordance with U.S. GAAP

allocation strategy, we believe we are competitively well positioned to continue as the market leader in this space.

On a broader scale, we are facing an unprecedented opportunity as we believe the global classroom education technology market is still in a very early stage of evolving from a hardware-centric model to an integrated software and service based model. We believe Mynd.ai's position as the incumbent market leader in our addressable markets, our installed base of over 1 million classrooms, a well-established network of distribution channels and a head-start advantage in launching its first SAAS offering in Explain Everything Advanced earlier this year are competitive moats that put us in a unique position at this market juncture. In view of the opportunity ahead of us, we are dedicated to delivering hardware and software solutions with groundbreaking tools and new technologies for the education, business, and public sectors in line with our long-term strategic vision.

We expect our subsidiary Mynd.ai to host a capital markets day in the near future to detail our strategic plan to our shareholders and the investor community.

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Management Presentation and Webcast

NetDragon's management team will hold a results presentation and webcast at 10:00am Hong Kong time on 30 August 2024 to discuss the results and recent business developments.

Details of the presentation are as follows:

Time: 10:00 AM, Hong Kong Time on 30 August 2024, Friday /
10:00 PM, Eastern Time on 29 August 2024, Thursday

Format: Physical Presentation at The Executive Centre, Hong Kong
OR Online Webcast

Venue: Level 2, No. 28 Stanley Street, Central, Hong Kong

Webcast : <https://webcast.roadshowchina.cn/Ym82eDBGWlozOGdtNjY5TUF6L3RDQT09>

The live and archived webcast of the conference call will be available on the Investor Relations section of NetDragon's website at <http://ir.nd.com.cn/en/category/webcast>. Participants in the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for "2024 Interim Results Presentation and Webcast" and follow the registration instructions.

About NetDragon Websoft Holdings Limited

NetDragon Websoft Holdings Limited (HKSE: 0777) is a global leader in building internet communities with a long track record of developing and scaling multiple internet and mobile platforms that impact hundreds of millions of users, including previous establishments of China's first online gaming portal, 17173.com, and China's most influential smartphone app store platform, 91 Wireless.

Established in 1999, NetDragon is one of the most reputable and well-known online game developers in China with a history of successful game titles including *Eudemons Online*, *Heroes Evolved*, *Conquer Online* and *Under Oath*. In the past 10 years, NetDragon has also achieved success with its online education business both domestically and globally, and its overseas education business entity, currently a U.S.-listed subsidiary named Mynd.ai, is a global leader in interactive technology and its award-winning interactive displays and software can be found in more than 1 million learning and training spaces across 126 countries.

For investor enquiries, please contact:

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NetDragon

NetDragon Websoft Holdings Limited
網龍網絡控股有限公司

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Revenue	3,301	3,681
Cost of revenue	(1,102)	(1,394)
Gross profit	2,199	2,287
Other income and gains	139	120
Selling and marketing expenses	(352)	(443)
Administrative expenses	(551)	(570)
Research and development costs	(696)	(641)
Other expenses and losses	(105)	(54)
Operating profit	634	699
Exchange gain (loss) on pledged bank deposits, financial assets at fair value through profit or loss, convertible and exchangeable bonds and derivative financial instruments	2	(35)
Fair value change on financial assets at fair value through profit or loss	77	35
Fair value change on derivative financial instruments	70	15
Finance costs	(81)	(135)
Profit before taxation	702	579
Taxation	(397)	(126)
Profit for the period	305	453



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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

1

61

Item that will not be reclassified to profit or loss:

Fair value change on equity instruments at fair value
through other comprehensive income

(12)

(1)

Other comprehensive (expense) income for the period

(11)

60

Total comprehensive income for the period

294

513

Profit (loss) for the period attributable to:

- Owners of the Company

400

500

- Non-controlling interests

(95)

(47)

305

453

Total comprehensive income (expense) for the period
attributable to:

- Owners of the Company

388

557

- Non-controlling interests

(94)

(44)

294

513

RMB cents

RMB cents

Earnings per share

- Basic

75.46

92.61

- Diluted

75.46

92.61



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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024

	30 June 2024	31 December 2023
	(Unaudited)	(Audited and restated)
	RMB million	RMB million
Non-current assets		
Property, plant and equipment	2,357	2,422
Right-of-use assets	458	380
Investment properties	47	60
Goodwill	320	325
Intangible assets	783	868
Interests in associates and joint ventures	43	43
Equity instruments at fair value through other comprehensive income	32	45
Financial assets at fair value through profit or loss	509	453
Loan receivables	12	12
Other receivables, prepayments and deposits	352	351
Deferred tax assets	151	433
	5,064	5,392
Current assets		
Properties under development	70	70
Properties for sale	281	280
Inventories	269	405
Financial assets at fair value through profit or loss	124	38
Loan receivables	90	79
Trade receivables	745	702
Other receivables, prepayments and deposits	667	492
Tax recoverable	30	39
Pledged bank deposits	624	315
Bank deposits with original maturity over three months	215	329
Cash and cash equivalents	2,382	2,241
	5,497	4,990



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Current liabilities

Trade and other payables	1,390	1,518
Contract liabilities	379	491
Lease liabilities	97	76
Provisions	110	127
Derivative financial instruments	37	107
Bank borrowings	1,318	1,033
Convertible and exchangeable bonds	274	256
Convertible note	375	357
Tax payable	72	80

	4,052	4,045
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Net current assets

	1,445	945
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Total assets less current liabilities

	6,509	6,337
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Non-current liabilities

Other payables	35	37
Lease liabilities	110	45
Bank borrowings	-	1
Deferred tax liabilities	84	80

	229	163
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Net assets

	6,280	6,174
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Capital and reserves

Share capital	39	39
Share premium and reserves	6,075	5,856

Equity attributable to owners of the Company	6,114	5,895
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Non-controlling interests	166	279
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	6,280	6,174
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UNAUDITED RECONCILIATION OF GAAP AND NON-GAAP RESULTS

	Six months ended 30 June	
	2024 (Unaudited) RMB million	2023 (Unaudited) RMB million
Operating profit	634	699
Gain on disposal of intangible assets	(51)	-
Amortisation of intangible assets arising on acquisitions of subsidiaries	36	30
Fair value change in investment properties	13	-
Share-based payments expense	8	2
Reversal of impairment loss of intangible assets	-	(43)
Write-down of inventories	-	4
Non-GAAP operating profit	640	692
Profit attributable to owners of the Company	400	500
Fair value change on financial assets at fair value through profit or loss	(77)	(35)
Fair value change on derivative financial instruments	(53)	(15)
Gain on disposal of intangible assets	(51)	-
Exchange (gain) loss on pledged bank deposits, financial assets at fair value through profit or loss, convertible and exchangeable bonds and derivative financial instruments	(2)	30
Deferred tax	219	-
Finance costs	71	122
Amortisation of intangible assets arising on acquisitions of subsidiaries	32	24
Fair value change in investment properties	13	-
Share-based payments expense	6	2
Reversal of impairment loss of intangible assets	-	(43)
Write-down of inventories	-	4
Non-GAAP profit attributable to owners of the Company	558	589