

NetDragon Announces Fiscal Year 2019 Financial Results Record High Revenue and Profit

(Hong Kong, 31 March 2020) 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 2019. NetDragon's management team will hold a conference call and webcast at 10:00am Hong Kong time on 1 April 2020 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: "2019 was a special year to NetDragon as we achieved record high revenue and profit while celebrating our 20th anniversary. We recorded revenue of RMB5,793.1 million, up 15.0% year-over-year, and net profit attributable to shareholders of RMB807.2 million, up 48.0% year-over-year.

"Our gaming business maintained its strong growth momentum with 39.4% year-over-year revenue growth, as mobile games and PC games sustained remarkable growth with 46.8% and 38.3% increase in revenue year-over-year respectively. The business has proven to deliver consistent and sustainable growth, as our revenue has grown at a CAGR of 35.3% in the past five years, while segmental profits have increased more than sevenfold during this period. Our performance in 2019 was driven by across-the-board revenue growth coming from all of our major IPs, including *Eudemons Online*, *Heroes Evolved* and *Conquer Online*. Over the past many years, NetDragon has built a unique set of technologies, knowhow and operational capabilities across multiple genres and markets, which will provide the foundation for us to drive our gaming business forward with sustainable growth."

"Our education business also delivered solid performance as our subsidiary Promethean continued its global market leadership position¹ in K-12 interactive classroom technologies with the largest market share in international markets. We had a strong second half as we continued to see robust growth in our core regions, particularly in the US and European markets, as well as new markets including Egypt. On the product side, we are delighted that our Red Dot Design Award-winning ActivPanel Elements Series has been well received since its shipment commenced in the second quarter."

"While our Promethean offerings continue to enable us to expand our ecosystem within the classroom environment, we are making strong progress with our online learning community platform Edmodo, which has seen unprecedented increase in active users and new registered users since the outbreak of the coronavirus, as teachers and students around the world embrace Edmodo as an easy-to-use, effective and reputable platform that will ensure the continuity of learning in a fun and engaging manner. In particular, Edmodo has recently been chosen by the Ministry of Education in the Arab Republic of Egypt to be the designated online learning platform for the K12 education system in Egypt for immediate rollout to over 22 million students and over 1 million teachers in the country to provide distance learning support in the period of school suspension."

¹ Based on report issued by Futuresource Consulting dated 17 February 2020, incorporating actual shipment volumes (excluding China) of the Company.

“In China, we continued to deliver strong progress with our strategy to drive user adoption. The number of monthly actively installed base of our flagship platform 101 Education PPT has surpassed 1 million, representing a sizable user base of teachers to drive learning activities in the classroom environment. Our One-Stop Learning platform, which enables teachers and students to communicate, teach and learn after school, has seen MAU increase by more than 20 times since the coronavirus outbreak. With our fast-scaling coverage of active users in both classrooms and at home, we are well on track to build our ecosystem towards monetization.”

Fiscal Year 2019 Financial Highlights

- Revenue was RMB5,793.1 million, representing a 15.0% increase year-over-year.
- Revenue from the gaming business was RMB3,299.6 million, representing 57.0% of the Company's total revenue and registering a 39.4% increase year-over-year.
- Revenue from the education business was RMB2,395.4 million, representing 41.3% of the Company's total revenue and registering a 6.6% decrease year-over-year. Excluding phase-two of the Moscow tender win in 2018 (with phase 3 of such tender release planned in 2020), revenue from the education business registered a 12.0% increase year-over-year. In the second half, revenue from education business increased by 28.5% half-over-half and 14.0% year-over-year respectively.
- Gross profit was RMB3,855.3 million, representing a 26.5% increase year-over-year.
- Cash inflow from operating activities was RMB1,175.8 million, representing a 69.4% increase year-over-year.
- Core segmental profit² from the gaming business was RMB1,923.3 million, representing a 51.3% increase year-over-year.
- Core segmental loss² from the education business was RMB524.5 million, representing a 36.2% increase year-over-year. The increase was due to a number of factors including consolidation of Edmodo for the full year period, US tariff on Promethean products, and cyclical nature of the Moscow tender as noted above.
- EBITDA was RMB1,245.2 million, representing a 49.6% increase year-over-year.
- Non-GAAP operating profit³ was RMB1,060.7 million, representing a 62.7% increase year-over-year.
- Profit attributable to owners of the Company was RMB807.2 million, representing a 48.0% increase year-over-year.
- The company declared a final dividend of HK\$0.25 per share (2018: HK\$0.15 per share), subject to approval at the coming Annual General Meeting.

² 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, fair value change and finance cost of financial instruments, intercompany finance cost, impairment loss (net of reversal), impairment of goodwill and intangible assets and fair value change of convertible preferred shares.

³ To supplement the consolidated results of the Company prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of non-GAAP operating profit measure is provided solely to enhance the overall understanding of the Company's current financial performance. The non-GAAP operating profit measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating profit of the Company excludes share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries and impairment of goodwill and intangible assets.

Segmental Financial Highlights

(RMB '000)	FY2019		FY2018		Variance	
	Gaming	Education	Gaming (Restated)	Education (Restated)	Gaming	Education
Revenue	3,299,626	2,395,398	2,367,405	2,565,556	39.4%	-6.6%
Gross Profit	3,165,500	713,009	2,262,355	766,057	39.9%	-6.9%
Gross Margin	95.9%	29.8%	95.6%	29.9%	+0.3 ppt	-0.1 ppt
Core Segmental Profit (Loss) ²	1,923,262	(524,458)	1,271,564	(384,929)	51.3%	36.2%
Segmental Operating Expenses						
- Research and development	(557,561)	(491,261)	(458,932)	(449,332)	21.5%	9.3%
- Selling and marketing	(385,921)	(508,088)	(232,099)	(440,704)	66.3%	15.3%
- Administrative	(306,434)	(254,866)	(295,989)	(239,497)	3.5%	6.4%

Gaming Business

Our gaming business revenue increased by 39.4% year-over-year to RMB3,299.6 million. Mobile games revenue surged by 46.8% year-over-year, while PC games revenue growth remained strong at 38.3% year-over-year. We also performed well in the overseas markets and recorded 66.4% increase in revenue year-over-year. As a result of strong top line growth and positive operating leverage, gaming business's core segmental profit jumped by 51.3% year-over-year.

In particular, our flagship IP *Eudemons* recorded 39.2% year-over-year increase in revenue of the PC and mobile versions combined. During the year, we successfully carried out a series of major marketing initiatives including cross-industry collaboration with *Nezha IP* and renowned celebrities to enhance the market influence of *Eudemons*. On the back of our marketing activities and new expansion packs, we managed to increase gamers' loyalty and activities, while at the same time optimizing spending, resulting in significant revenue growth as well as a 38.8% year-over-year increase in monthly active players.

Our other two major IPs, namely *Heroes Evolved* and *Conquer Online*, also recorded solid revenue growth of 32.5% and 66.3% year-over-year respectively. In particular, *Conquer Online* achieved record high revenue after its sixteenth year of history, as we stepped up our effort in enhancing the contents and user experience with multiple expansion packs launched during the year. *Heroes Evolved* also performed exceptionally well, with its growth attributable to a combination of introduction of new playing methods and effective marketing and promotion campaigns including IP crossovers with two popular anime, *OVERLORD* and *Rakshasa Street*, which led to a substantial increase in gross billings.

Looking forward, we are well-positioned to drive consistent, long-term revenue and profit growth for our gaming business by building on the success of our technology knowhow and our IP portfolio to launch new premier quality games of different genre, grow the user base and engagement of our existing games, launch new IP and seek to work with our partners on IP collaboration. Currently, we have a robust pipeline with games of different categories and genres under development or in testing stage, including *Vow of Heroes*, *Eudemons II*, *Eudemons Legends*, *Heroes of Ages*, *Heroes Evolved Thrones and Battle of Giants*.

Education Business

Our revenue from the education business was RMB2,395.4 million, down 6.6% year-over-year. Excluding revenue from the large Moscow tender in 2018 (which we exclude for more comparable presentation due to cyclical nature of the tender), revenue from the education business increased by 12.0% year-over-year. Our subsidiary Promethean continued its market leadership by maintaining its number 1 market share position in our key geographical regions including the US and a large number of European countries, resulting in strong growth momentum during the year, particularly in the second half of 2019 on the back of our new ActivPanel Elements Series product launch as shipment of this product started in the second quarter. ActivPanel Elements Series is Promethean's next-generation interactive panel, featuring unmatched ease-of-use, security and manageability. This ground-breaking innovation has earned our team a winner of the prestigious Red Dot Design Award during the year, as well as excellent feedback from customers. Overall, Promethean's unit volume of panel shipment increased by 11.1% year-over-year, while revenue increased 20.0% sequentially from first half to second half of 2019, as a result of the positive reception of our new product launch. We also see strong traction among emerging markets. In January 2019, we signed an MOU with The Ministry of Education of Egypt with the goal to deliver to Egypt a total of 265,000 sets of intelligent classrooms equipped with our education products including Promethean panels as well as software platforms. Building on our success in Egypt with a unique country coverage model, we are expanding our "country strategy" into other countries as we have initiated discussions on multiple country-level opportunities.

While Promethean expands our ecosystem within the classroom environment, we have made strong progress in extending our presence into the "home" with our online learning community platform Edmodo, which has seen unprecedented increase in active users and new registered users since the outbreak of the coronavirus. The remarkable increase in adoption, with DAU currently over 4 million, is due to Edmodo's clear differentiation with its freemium model, emphasis on sharing and community building, as well as its globally reputable brand as a reliable and secured platform for online and mobile learning. Recently, Edmodo was also selected as a UNESCO-recommended distance learning platform, due to its wide reach, strong user base and evidence of positive impact on learning. And in March 2020, Edmodo became Egypt's designated national K-12 online learning platform, as we work towards deployment of Edmodo across the whole of Egypt to create for a positive transformation of education at a country level. Meanwhile, we are also starting to lay the foundation to monetize our user base with a SaaS model as we soft launched AskMo, an online homework help service, in the fourth quarter.

In China, our strategy focus is to both expand user coverage and work towards monetization via a SaaS model. We have started large-scale penetration of our Promethean offerings with multiple tender wins in Fuzhou during the year. Our platform user adoption in the classroom environment has also continued to pick up traction, as the number of monthly active installed base of our flagship software platform 101 Education PPT has exceeded 1 million. Separately, our One-Stop Learning platform, which enables teachers and students to communicate, teach and learn after school, has seen MAU increase by more than 20 times in China since the coronavirus outbreak. With our fast-scaling coverage of active users in both classrooms and at home, we are well on track to build our ecosystem towards monetization. In December 2019, we signed a partnership agreement to partner with National Center for Educational Technology (NCET) to rollout the NCET VLAB Teaching Service System, a virtual laboratory platform, nationwide to high schools across China, which is expected to generate revenue based on a SaaS model at the school level.

Last but not least, as schools continue to shut down around the world due to the outbreak of coronavirus, NetDragon is upholding its corporate social responsibility by offering online learning tools, resources and platforms to teachers, students and parents worldwide to support “continuous learning amid school suspension”. As noted above, our education platforms have seen significant surge in user traffic and activities, and we are committed to serving teachers, students and parents during this challenging period, and to enhance their teaching and learning experience not just during the outbreak, but also when school learning comes back to normal.

Looking forward, we are excited with the outlook of our education business in 2020, thanks to rising traction in tender business, surge in user traffic, as well as growing online monetization opportunities. We believe the unique differentiation of the ecosystem that we have built, as well as our technologies, will enable us to fulfil our mission to transform education at a global scale.

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Management Conference Call

NetDragon's management team will hold a conference call and webcast at 10:00am Hong Kong time on 1 April 2020 (Wednesday) to discuss the results and recent business developments.

Details of the live conference call are as follows:

International	+852 2112 1700
Mainland China	4008 428 383
HK (China)	+852 2112 1700
US	1 877 301 4670
UK	0800 068 8163
Passcode	6237526#

A live and archived webcast of the conference call will be available on the Investor Relations section of NetDragon's website at <http://www.netdragon.com/investor/ir-webcasts.shtml>. Participants in the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for "2019 Results Conference Call" 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. These include China's number one online gaming portal, 17173.com, and China's most influential smartphone app store platform, 91 Wireless, which was sold to Baidu for US\$1.9 billion in 2013 as the largest Internet M&A transaction in China.

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 and Conquer Online. 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 the "classroom of the future" 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 2019**

	2019	2018
	RMB'000	RMB'000
Revenue	5,793,075	5,037,539
Cost of revenue	(1,937,823)	(1,990,298)
Gross profit	3,855,252	3,047,241
Other income and gains	137,323	118,189
Impairment loss under expected credit loss model, net of reversal	(26,491)	(11,717)
Selling and marketing expenses	(915,754)	(697,871)
Administrative expenses	(883,083)	(853,180)
Development costs	(1,075,400)	(922,867)
Other expenses and losses	(305,356)	(150,308)
Share of losses of associates	(4,936)	(1,370)
Share of loss of a joint venture	(3,370)	(1,717)
Operating profit	778,185	526,400
Interest income on pledged bank deposits	3,181	3,607
Exchange loss on secured bank borrowings and convertible preferred shares	(1,052)	(10,030)
Fair value change on convertible preferred shares	110,697	60,659
Net loss on disposal of property held for sale	-	(68)
Finance costs	(24,742)	(12,415)
Profit before taxation	866,269	568,153
Taxation	(163,214)	(91,349)
Profit for the year	703,055	476,804

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	5,517	4,332
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Item that will not be reclassified to profit or loss:

Fair value gain (loss) on equity instrument at fair value

through other comprehensive income	878	(9,366)
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Other comprehensive income (expense) for the year	6,395	(5,034)
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Total comprehensive income for the year	709,450	471,770
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Profit (loss) for the year attributable to:

- Owners of the Company	807,212	545,573
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- Non-controlling interests	(104,157)	(68,769)
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	703,055	476,804
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Total comprehensive income (expense)

for the year attributable to:

- Owners of the Company	813,456	541,430
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- Non-controlling interests	(104,006)	(69,660)
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	709,450	471,770
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RMB cents

RMB cents

Earnings per share

- Basic	152.68	102.42
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- Diluted	152.17	102.27
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2019

	2019	2018
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,918,697	1,657,417
Right-of-use assets	467,250	-
Prepaid lease payments	-	293,228
Investment properties	95,090	77,281
Intangible assets	675,737	824,991
Interests in associates	54,655	23,591
Interests in a joint venture	12,346	15,716
Equity instruments at fair value through other comprehensive income	4,514	1,493
Loan receivables	9,573	12,850
Prepayments and deposits	57,829	45,564
Contract assets	-	2,389
Deposits made for acquisition of property, plant and equipment	11,486	7,698
Goodwill	313,328	390,640
Deferred tax assets	47,317	38,169
	3,667,822	3,391,027
Current assets		
Properties under development	469,070	536,848
Properties for sales	20,640	-
Inventories	237,478	267,420
Prepaid lease payments	-	6,636
Loan receivables	27,354	16,078



Trade receivables	689,360	450,435
Other receivables, prepayments and deposits	328,369	320,360
Contract assets	18,333	29,775
Amounts due from a related company	849	140
Amounts due from associates	2,262	2,105
Amount due from a joint venture	279	751
Amount due from a director	400	-
Tax recoverable	6,689	1,126
Financial assets at fair value through profit or loss	1,492	-
Restricted bank balances	15,089	15,089
Pledged bank deposits	145,787	156,168
Bank deposit over three months	-	68,632
Bank balances and cash	2,125,637	1,483,352
	4,089,088	3,354,915
Current liabilities		
Trade and other payables	980,522	783,040
Contract liabilities	529,497	412,462
Lease liabilities	54,603	-
Provisions	69,867	59,936
Amounts due to a related company	105	982
Amounts due to associates	257	720
Secured bank borrowings	161,135	155,157
Tax payable	107,120	70,095
	1,903,106	1,482,392
Net current assets	2,185,982	1,872,523
Total assets less current liabilities	5,853,804	5,263,550
Non-current liabilities		



Other payables	16,275	22,219
Convertible preferred shares	-	108,904
Secured bank borrowings	246,068	169,604
Lease liabilities	108,803	-
Deferred tax liabilities	121,610	163,843
	<u>492,756</u>	<u>464,570</u>
Net assets	<u>5,361,048</u>	<u>4,798,980</u>
Capital and reserves		
Share capital	38,822	38,863
Share premium and reserves	<u>5,557,499</u>	<u>4,893,941</u>
Equity attributable to owners of the Company	5,596,321	4,932,804
Non-controlling interests	<u>(235,273)</u>	<u>(133,824)</u>
	<u>5,361,048</u>	<u>4,798,980</u>