



NetDragon

NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

2016 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2016 環境、社會及管治報告

CONTENTS

A. Environmental Protection	1
Emissions	1
Protection of Environment.....	1
Energy Conservation	1
B. Society.....	1
I. Employment	1
II. Health and Safety	2
III. Development and Trainings	3
IV. Labour practices.....	7
V. Management of the supply chain	7
VI. Product Liability.....	8
VII. Anti-corruption.....	9
VIII. Community investment (Contributions to the community)	10

A. Environmental Protection

Emissions

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) has enhanced its management of emissions through technological and recycling solutions that seek to reduce the emission of relevant pollutants and greenhouse gases, waste discharged into water and land, as well as the generation of hazardous and non-hazardous waste.

Protection of Environment

The Group has been minimizing the adverse effect of its business on the environment by enhancing operational efficiency and implementing environmental measures. All the operations of the Group are committed to ensure compliance with the relevant laws of the jurisdiction where it belongs and to review the practices of business on a regular basis, in order to identify methods for enhancing sustainable development and deploy measures for more effective use of resources.

Energy Conservation

The Group runs its daily office operation with the objectives of energy conservation, adequate utilization of resources with waste-recycling, as well as enhancing environment awareness of the staff. The Company has spared no effort to advocate “reducing”, “re-use” and “recycling” and reduce energy consumption by encouraging the staffs the use of email for internal and external communications, using e-files at the server, double-sided printing and photocopying, promotion of the use of recycled paper, reduce unnecessary printing and photocopying, and making best effort in recycling all office supplies and equipment.

B. Society

I. Employment

Nearly 99% of the staff employed by the Group are located in China. The Group offers equal opportunities to all job seekers regardless of race, color, nationality, religion, gender, age, disability or other bias prohibited by any other relevant laws. The policy of the Group is to select the most suitable person who corresponds to particular job requirements taking into account of educational background, working experiences, skills, personal integrity and considerations such as potential to grow in line with the Group. The Group has been in strict compliance with the requirement of the PRC Labor Law without any violation of the relevant standards and regulations:

1. All wages, over-time allowances and relevant benefits are paid based on the local minimum wage (or at a higher rate);
2. All holidays and statutory paid holidays are in compliance with the requirements of the State;
3. The Company treats every staff with equality and none of their appointment, remuneration packages and promotions will be affected on the grounds of their social identity, such as race, ethnicity, nationality, gender, religion, age, sexual orientation, political grouping, marital status;
4. Implementation of a work system based on the comprehensive calculation of working hours with reference to Labor Law.

In order to attract, nurture and retain qualified employees, the Group is committed to offer professional development opportunities and a healthy working environment for all the employees. In addition, the Group also pursues the principle of employment with equality. The Group requires the employees to bear high standard of business ethics and promotes good personal integrity.

The Group conducts reviews of the remunerations and benefits scheme regularly to ensure the remunerations and benefits remain competitive. Moreover, the Group continues to review the scheme annually and adjusts the remunerations and other benefits of the employees, including medical scheme, health check, overseas business trip, training allowance and retirement benefits, according to the prevailing market condition.

The Group strongly advocates community spirit of mutual respect and equal opportunities. The Group strictly complies with the law of Equal Opportunities, including Sex Discrimination Ordinance, Race Discrimination Ordinance, Disability Discrimination Ordinance and Family Status Discrimination Ordinance. To ensure diversification and equality in career opportunities, the principles of recruitment, remuneration and promotion of the Group are based on the working experiences, skills and performance of the employees, who will not be discriminated on the grounds of age, race, disability, gender or family.

II. Health and Safety

The Group has made its endeavor to provide a healthy working environment for the employees. In order to maintain a healthy working environment, the Group performed upgrades, maintenance and controls in respect of the equipment and facilities, personnel control and information technology equipment.

The Group has made its best effort to provide a safe and healthy working environment for all the employees, exercised strict control on both staff and vehicles entering and exiting the Company with security guard on duty on a 24-hour basis, conducted strict inspection to protect the personal and property safety of the Company's employees. In addition, the Company has set up a fire station equipped with full-time firemen and sound fire equipment, such as fire engines, aerial ladders and fire-fighting coats, drawn up operation safety manual along with an assessment on operation safety on a monthly basis and conducted irregular training on fire safety for all the employees, such as fire evacuation drill, explosion drill and lift entrapment drill, for the purpose of round-the-clock protection of the safety for the Company.

In respect of health, the Group conducts body checks for all the employees every year and has set up special medical room within the Company equipped with related facilities such as oxygen concentrators, disinfection machines, dehumidifiers, wheelchairs, stretchers, crutches and various medicines, and employed professional doctors and nurses to provide services such as making diagnosis for common diseases and frequently-occurring diseases, performing preliminary treatment for accidental injuries and liaison for hospitalization, in order to provide health protection to the employees and their families. Meanwhile, the medical room will provide tips on medical knowledge, health maintenance and diet matching with free consultation service; in respect of food safety, all the food in the Company are supplied by "Metro AG", safeguarding the health and safety of the Company's employees.

III. Development and Trainings

Staff Training

NetDragon University is a base for nurturing management and technological talents of the Group. As a powerful support and an important part of the overall strategy of the Group, NetDragon University is committed to providing professional and systematic training services to the staff of the Group. Through effective organisation and learning, technological and management talents of high standards will be trained to contribute to the continuous enhancement of core competitiveness of the Group.

Achievements of 2016

In line with the transition of the Company into a design-oriented company and to align with the VR business focus of the Company and fostering of the learning operating know-how of department positions, we took the initiatives to optimize its business through training courses, offline workshops and certifications while identifying skilled designers and bringing more creative ideas to the design centre. A new O2O management training approach was introduced through a combination of online and offline training programmes. The original management training, technological training and business development training were also enhanced. In addition, specific training systems for different positions were developed and the learning operating know-how of department positions was fostered.

In 2016, a total of 307 sessions of training programmes and online and offline workshops were organised for all the staff of the Company. Approximately 25 sessions of design theory primary certifications were held with nearly 6,500 participants in total.

As to "Certification"

In 2016, the Group continued to proceed with the certifications, namely design theory primary certifications. 25 sessions of the design theory primary certifications (sessions 39-60, during which 3 Huayu sessions were added) in total were held with 1,564 participants, of which 539 participants eventually passed the certification, representing a passing rate of 34.5%.

As to "Training Courses"

I. Management course: Best training camp for front line supervisors of Fuzhou Development Zone Taihe Labour Service Ltd.* 「福州開發區泰和勞動服務有限公司」 ("Taihe") was successfully completed in 2016.

36 persons participated the course with 100% passing the certification

1. Completed the development and operation for courses of seven learning modules

The course of seven learning modules is as below:

A: Tips of communication for front line supervisors

B: Implementation of HR management of Taihe

C: Counselling for new recruits

D: Setting of work goals and formulation of plans

* For identification purpose only

E: Allocation of work

F: Recurring management of PDCA

G: Incentives for teams

2. Results of the courses as below:

- 2.1 Development of courses fully completed with a total of 7 offline courses and 10 micro courses, which have passed the assessment by the programme validation council; and formed a complete and reusable training and learning material.
- 2.2 The passing rate of performance interview certifications for target students was 100% while the course completion coverage was 94% (released 34 up-to-standard management talents to Taihe Company);
- 2.3 The score of satisfaction towards the courses was 95 marks (out of 100 marks);
- 2.4 95% of the students completed the after-class learning mission, producing 250 comprehensive implementation assignments, of which about 50 assignments are excellent and were elected as excellent cases for management improvement of Taihe Company;
- 2.5 Provided approximately 100 solutions in the form of team building for management cases.
- 2.6 As of July to September, there was an average increase of 15% in terms of student performance as derived from the comparison between data provided by Taihe Company and the average performance index of students before training;
- 2.7 Released 10 videos of management cases, which can be reused in the future for developing materials for micro courses of management, forming 7 typical reusable course data and supporting cases of management mission.

3. Reusable output:

3.1 Templates:

Confirmation of templates of course requirements: the templates were used for confirmation with the parties involved in respect of course requirements at the preliminary development stage of the courses, with which directions and objectives of the courses could be substantively through series of replies to questions;

Course development template based on typical missions: release of a general and all-purpose template on how to commence cooperation with operation experts for tailored procedures of course development based on typical work;

Template for review in stages: the template was internally used by the project teams after the end of the course modules for benchmarking in phases, development of highlights and experiences, troubleshooting reflection and reasons questing, actions and plans for the next stage and accumulation of experiences as the projects progressed;

Training certification module: release of a pack comprising material such as procedures for trainee certifications, certification organizations and form of certification appraisal, all of which are reusable for other training programmes comprising certification sessions.

3.2 Methods using tools:

Course development methods based on typical missions: including how to organize a course development team for extracting knowledge from typical management cases of the trainees, how to identify critical issues in core management and determine solutions in the form of team building, how to match typical management knowledge with the tools and skills for quick application by the trainees, development of a knowledge system for core courses, as well as design of case study in respect of management on real work situations basis for discussion by the trainees, design of student-based teaching method, deployment of “electrocardiogram” on courses, all of which jointly developed into a set of methods for course development based on typical missions.

Development of a mobile learning system: building on the philosophy of mobile learning and the guidance of Kirkpatrick Model and integration of group learning elements, development methods of mobile learning system have been established, comprising improvements of practical mission through trainees’ behavior, group practical discussion, face-to-face appraisal of mission performance by the supervisor of the trainees, discussion workshops on management behavior, monitoring and appraisal of trainees’ data, so as to foster a change in the post-course management behavior of the trainees. Such methods are seamlessly linked up with performance assessment of trainees directly by the immediate supervisor and have casted influence of training on behavior more directly and effectively, which, in part, have some impact on the performance.

Management behavior discussion workshops: in the form of a flipped classroom, revision of the knowledge learnt in the course will be conducted first, the trainees will then gather some cases of problems and doubts developed in the course of practice and focus on the common ones for discussions amongst themselves based on the jointly developed methods by the team. Experts on the subjects or experienced middle managerial staffs will be invited to deliver comments and responses, allowing the trainees with better practical use of their knowledge learnt and accomplishing the second leap of the course from theory to practice.

Mentorship system: the immediate supervisor of the trainee, being the mentor, will participate in the programme, answer the practical problems on management of the trainees and monitor and inspect the progress of their management behavior. Mutual benefits of teaching and learning has rendered the effect of “Single effort with triple benefits” through cultivation of mentorship skills of the supervisors while extending the benefits to the middle managerial staffs in the programme next year and building foundation for the preliminary stage of part of the course for advanced training.

Game-based operation mode: group learning is enhanced by using leader board (ranking by score, both individual and group, of each course module is shown), giving full effect of core organizing ability of the group leaders, and with the assistance of the disciplinary committee members and learning committee members, the three parties, as a whole, cooperated to help to follow up disciplinary issues and the accomplishment of post-class practical missions in respect of group learning, facilitated in creating a harmonious atmosphere in group learning.

“Nurturing Plan-The Qianlong O2O Project” of NetDragon

Building on the foundation of the successful experiences of the management talents projects of NetDragon University over the years and the integration of the latest training element, the “Plan of Talents Nurturing -The Qianlong O2O Project” of NetDragon is a nurturing project of core talents tailored for building of a reserve of management staff. The Plan of Talents Nurturing is the collective name for the management talents projects of the Company, which are divided into the Qianlong, the Feilong and the Tenglong, corresponding to the development projects for the Company’s base cadres, intermediate cadres and senior cadres respectively. Established since 2010, the Plan of Talents Nurturing has been developing with the progress of the Company into a base for nurturing management talents now.

Reasons for Establishing the Project:

1. NetDragon implemented strategy upgrades to tap comprehensively into new business, where management for this new sector brings about challenges to the Company. In terms of organization and talent review, the Project, on one hand, can satisfy the insufficiency of base cadres for future business development while, on the other hand, some of the existing base cadres who have just got their promotion, a majority of which has been promoted from technician positions to management positions, do not possess sufficient skills in management;
2. As the working environment changes, overseas management becomes more frequent and the traditional mode of management needs to be changed as the management group has become younger;

As such, the Project is expected to address the following issues:

1. Promoting the smooth transformation of the management role of the base cadres from their professions to management;
2. Improvement of the management ability of the base cadres, particularly the three skills: goal setting and planning, mission allocation and staff counselling, which are to be determined by surveys);
3. Addressing difficulties in learning concentration of staffs who are working in multi regions so that they can effectively and reasonably arrange for self-learning according to their work schedule;

II. VR training projects:

In line with the VR key business of the Company, NetDragon University, making use of its own strengths, participated in the VR business, offering internal trainings for VR mentors in cooperation with the VR business department of the Company and organizing external VR themed sharing, with, in fact, a total of 2,216 people completed these VR themed trainings during the year.

III. As to “Promotion of the know-how project”

As a design-oriented company, NetDragon helps staff gain a better understanding of their positions and relevant duty requirements through the promotion for implementation of the “positions know-how project” by NetDragon University for the centres and departments of the Company, and has made the following achievements:

As of 20 December 2016, NetDragon University has, in conjunction with the management centre and the business departments, completed trainings involving 42 positions of 5 business centres, namely Huayu, Huayu K12 business group, academy of engineering, UEDC and arts centres, releasing learning maps for typical mission learning for different positions and learning material, as well as 336 online learning courses.

IV. Labour practices

The Group formulated its labour practices pursuant to the Labour Law of China, and such practices are in compliance with the requirement of the national standard. The Group has also given directions to the employees pursuant to the laws of the State. The Group strictly complies with the relevant laws and regulations and in no circumstances engaged in any forced labour or child labour.

V. Management of the supply chain

The Company has established a set of comprehensive system for the management of the supply chain, aiming to select quality suppliers on a strict basis while building a stable cooperative relationship with them, and to guarantee their cooperation meets the social, legal, moral and environmental standards. Prior to the introduction of suppliers, the Group will perform due diligence in respect of the corporate qualification, capability of production, operation and management of the suppliers, and products qualification certification, conduct strict inspection of product quality, make sure quality cooperating manufacturers are introduced, enter into comprehensive supply contracts and quality guarantee agreement with the suppliers in the course of cooperation, regulate strictly the mechanism of admission, assessment and replacement of suppliers, compile a list of qualified suppliers and conduct regular assessment of the system to eliminate the sub-standard ones.

In 2016, Promethean had a total of 15 key suppliers. The geographical split of these suppliers was as follows:

Indicators	2016	2015	2014
Number of Key suppliers ¹	15	11	17
By region:			
Asian countries other than PRC and Hong Kong	4	1	3
Australia	0	0	0
UK	0	1	1
US	1	1	2
PRC	5	4	8
Hong Kong	4	3	3
European Countries other than UK	1	1	0
Total amounts invoiced by key suppliers (£million)	95.8	90.7	102.7

¹ Key suppliers refers to suppliers of products/services whose total contract sum amounted to £1 million or more in any given year.

Promethean has a rigorous supplier on-boarding process that is undertaken in respect of significant suppliers of products to the Group. This process includes a review of quality processes, Health & safety, training & development, labour ethics and the environment.

The Promethean's operations team periodically visit significant suppliers in the normal course of business.

During the year, the Group was not aware that any key suppliers had any significant actual and potential negative impact on business ethics, environment protection, human rights and labour practices nor was the Group aware that any of them had any non-compliance incident in respect of human rights issues.

VI. Product Liability

Based on the standard of a computerized software test, the Group has performed strictly product inspection, including function test, performance test, safety test, stability test, compatibility test and interface test, etc. and applied extensively automated testing technology to avoid and control, to the largest extent, risks of human factors to ensure the product functions and various indexes meet the quality standard. Moreover, for the purpose of a further guarantee for continuous improvement on product quality and on the quality of the production procedures, the Group has established an analysis mechanism for causes to defects and prevention measures for defects through the management of the information of BUG, along with regular technologies exchanges with corporates and universities, as well as continuous improvement and testing for related new tools and new methods.

The Group has taken the following measures to guarantee product quality:

1. Giving out daily journals on quality, demonstrating on a multidimensional scale the quality and progress of the latest version of the products, and coordination for issues addressing on a timely basis to avoid and control risks to the largest extent in order to ensure the progress of the products;
2. On the basis of the 7 x 24 cloud service of the automated testing technology, performing self-development of a tailored testing cloud platform to conduct various specific tests such as functions, compatibility, network and safety for the products for a comprehensive protection of quality;
3. Strict implementation of the procedures and standards related to quality control, including review of product demand, test activities such as management of test plans, management of test rules, management of test performance, management of feedback on risks and management of bug information;

In 2016, Promethean was not aware of any incidents of non-compliance with regulations and voluntary codes concerning the provision and use of the Group's products and services, including but not limited to, product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that have a significant impact on the Group.

Promethean has had no health & safety related product recalls during the three years ended 31 December 2016.

During the three years ended 31 December 2016, Promethean has had no significant product failures. Promethean also monitors customer feedback and product related enquiries. Of the customer enquiries received over the course of the three years ending 31 December 2016, less than 1% of such enquiries result in a complaint.

ClassFlow™ and Data Privacy

Since ClassFlow™ is a Service which collects personally identifiable information from teachers, parents and students, since its initial release in 2014, Promethean has made significant efforts to comply with data privacy regulations around the world. Promethean has made significant efforts to ensure that it is particularly sensitive to its use of personally identifiable information belonging to students (children under the age of 18). To that end, Promethean has developed a privacy policy which is constantly updated with each new release of the Service and takes into consideration the ever-changing legal regulatory landscape on a global level. To date, there have been no incidents of security or data breaches related to the ClassFlow™ Service.

VII. Anti-corruption

The Group has been directing the operation of the Company's departments in accordance with laws and regulations and has put in place a reporting mechanism, allowing the employees an access for ideas or suggestions feedback to the internal review department of the Company on an anonymous basis.

VIII. Community investment (Contributions to the community)

1. In February 2016, the industry design department of the Company activated the international trainee projects, 3 months following which the Company kept liaising worldwide with the target universities, conducted scanning of the CV of the candidates making an application and finally determined the suitable candidates and developed specifically a 2-month learning programme for the trainees.
2. On 27 February 2016, the seminar on the construction development of the VR base in Fujian, China was held at Fuzhou Strait International Convention and Exhibition Centre. Yang Yue, the Standing Committee Member of CPC Fujian Provincial Committee and secretary of CPC Fuzhou Municipal Committee, and Zhang Zhinan, the Standing Committee Member of CPC Fujian Provincial Committee and the Executive Vice Governor of Fujian presided the inauguration ceremony of the VR base in Fujian, China. The VR base in Fujian, China, which is run and operated by the Company, represents another innovative measure following the implementation of the precise action plan and the “13th Five-Year” Plan. The VR base will engage in various production areas relating to the VR industry such as chips development, softwares development, resources production and distribution, hardwares production, talents training, industrial certifications, product testings and application experiences.
3. On 21 May 2016, the Company organized the 518 Athletic Meet and the VR Open Day Event at the Animation Creativity City at Haixi, Changle, attracting participation of over 6,000 people. The Company has been adopting game-based management and encouraging our employees to take physical exercises and uplift the spirit of sports.
4. On 16 August 2016, Zheng Hui, an executive director of the Company initiated voluntary blood donation of employees, blood donors of which included employees of Taiwan. Among the colleagues participated in the charity activities, many are frequent volunteers of blood donation. With the joint effort of these donors, the Company wishes to help resume the health of more patients who need blood.
5. On 3 September 2016, upon the 50th anniversary celebration of the “Star Trek” series, the Company organized a “Open Day for Star Trek Fans”, inviting over a hundred Star Trek fans of the nation to visit NetDragon Enterprise* (網龍企業號) as a joint celebration of the birth of the “Star Trek” series for the 50th year.

* For identification purpose only