



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)

2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2017 環境、社會及管治報告

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A. Environmental Protection

Emissions

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) currently engages in online gaming and online education business and its nature of business is not related to manufacturing or other business which produces emissions (including greenhouse), waste (hazardous and non-hazardous), or other business which have a significant effect on the environment. Therefore, the Company is of the view that the KPIs relating to the environmental aspects under Part A of Appendix 27 are not applicable due to the immaterial impact on the environment by the Company’s business.

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 installed a monitoring system everywhere in its office area, 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, lift entrapment drill and drowning 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, conducting irregular statistics over staff's special physical conditions and purchasing specific medicines in response to staff's feedback in advance in order to provide health protection to the employees and their families. In addition, 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" and "Yonghui Superstores", 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. In 2017, in view of the tactical and business requirements of the Group, NetDragon University established a new direction for training based on new organizational structure (two centres + two laboratories: VR Training Centre, Skills Development Centre, Mobile Learning Laboratory, Experiential Learning Laboratory), to deepen functions and application internally and promote effects with a focus on business externally.

Achievements throughout 2017

In line with strategic development and key businesses of the Company, continued efforts were given to external VR training with a focus on the core business of the Company in a quick response to the needs of various business departments to create VR artistic design commercial training products jointly with the VR Art Department. Also, in response to the request for enhancing productivity made by the Company at the beginning of the year, transformation to BP's training was carried out through cooperation with each department to enhance productivity and coordination of positions. Moreover, to facilitate transformation of the Company into a design company, certification of design methodology was proceeded continually, and was upgraded to V2.0 version of certification. In management training, nurturing of senior management talents for the Company was pursued through the Qianlong Acceleration Project, and adopted the mode of department projects to follow more closely with the practical situation of the departments to satisfy departmental needs, the learning method of combining online and offline learning was pursued for sound training effect.

Throughout 2017, NetDragon University organized a total of 309 various training events with an attendance of 11,348 participants.

External Training

VR Training Project: In line with the VR key business of the Company, the NetDragon University VR Training Centre commenced external training in a quick response to the needs of business departments. Projects undertaken for operation included: information leadership ability training for principals of 88 tertiary education institutions, 8 sessions of information leadership ability training for principals of secondary and primary schools, 101 school and enterprise partnership projects on VR teacher training, VR world laboratory and Hong Kong summer and Christmas study tours and VR camps, technical secondary schools' principals' seminar and education management cadre workshop, etc. of which, the training for principals of tertiary education institutions received favourable comments from most principals, at the same time many tertiary education institutions expressed their intent in VR building. Strategic products of the Company were embedded in many sessions of information leadership ability training for principals of secondary and primary schools, including products such as 101 education PPT and alumni, Promethern interactive class, VR intelligent classroom/Maker classroom, VR subject education and intellectual laboratory and training room and VR education resources database, a total of nearly 160 secondary and primary schools in 8 sessions had intent of cooperation and were willing to have in-depth interflow on cooperation opportunities. Throughout the year, VR Training Centre organized a total of 35 training events of various training subjects with an attendance of 1,821 participants, indirect revenue of which (being post-training value) amounted to approximately RMB12.84 million.

Internal Training

Productivity Enhancement Project: In response to the request for enhancing productivity made by the Company at the beginning of the year, the Skills Development Centre was transformed into business partner training and cooperated with other departments, such as the design centre, artistic VR department, engineering institute and Huayu resources production group, in enhancing productivity, and developed the dual creative training camp project for the design centre, programming boot camp, productivity enhancement project for the artistic VR department, 101 creative thinking world certification project and the development and management productivity enhancement project for the engineering institute. Through measures such as process optimization, utilization of new tools and standardization of operation, assistance to enhance the productivity of the business department was provided.

Management Training Project: The Qianlong Acceleration Project commenced in 2016 continued to nurture high potential management talents for the Company, three core trainings on management abilities were completed through online and offline and combining theory and practice. Meanwhile, after taking over the Management Training Project of Yayu, design methodology was introduced innovatively to help middle and senior management staff of Yayu to complete the rationalization and consensus of targets and initiated the basic management training camp project. Based on the competency model and typical tasks of basic management, 7-step Qianlong learning project was developed to assist basic management in ability improvement.

Skills Training: During the year, a total of 122 courses were organized on various topics of skills with a total attendance of 4,066 participants.

Experience Training: The trainer nurturing project was started and recruited a total of 31 new trainers. 50 sessions of routine expansion were completed during the year in 55 teams, involving: the VR design department, art development department, programming centre, design centre, K12 self-grouping network, Huayu resources production group, engineering institute common platform, overseas business department, Tiandi, website centre and QA, etc.

New Staff Training: During the year, a total of 24 sessions were organized with a total number of 1,004 participants and new staff's marathon process was optimized and incorporated such staff into an employment-after-probation process with a total of 10 sessions and 890 participants.

Design Theory Primary Certifications: During the year, a total of 947 participants took part in design theory primary certifications.

Engineering Institute's Skills Certification: Engineering institute's skills certification included 7 skill direction certifications, structural design, programme design, database, demand analysis, etc.

Programming Centre Post Duty Certification: It involved 10 skill directions, i.e., C++coding standards, Android coding standards, JAVA coding standards, C++ development certification, SVN source code management certification, STL certification, MySQL certification, UML certification, U3D technical certification, safety technology certification with a total of 1,377 participants.

Construction of Platform Function and Content

Construction of Platform Function: In line with the implementation of post coordination certification and administration of data statistics, implementation of 3 questions per day function were promoted and applied to various business departments, development of learning map function, prototype design of data reports, development and testing of novice task's function were promoted.

Construction of Platform Content: In 2017, a total of 220 courses and 275 training certification courses were uploaded to learning platform and 315 micro video classes were developed in micro class resource pool.

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 2017, Promethean had a total of 17 key suppliers. The geographical split of these suppliers was as follows:

Indicators	2017	2016	2015
Number of Key suppliers ¹	17	15	11
By region:			
Asian countries other than PRC and Hong Kong	2	4	1
Australia	0	0	0
UK	0	0	1
US	5	1	1
PRC	7	5	4
Hong Kong	1	4	3
European Countries other than UK	2	1	1
Total amounts invoiced by key suppliers (£ million)	183.7	95.8	90.7

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.

Engaging suppliers: Key ODM suppliers are managed by the Quarterly Business Review (QBR) process.

The number of suppliers where the practices are being implemented. Promethean's 2 suppliers of Interactive Flat Panels account for c.60% of total company spend are managed by the QBR process. Other Key suppliers based on pareto 80% value are managed by 6 or 12 month business reviews.

These are implemented and monitored by way of a QBR presentation pack which is produced for the review meeting and subsequent actions logged and reviewed/closed out at the following meeting.

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 2017, 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 2017.

During the three years ended 31 December 2017, Promethean has had no significant product failures. Any normal run rate failures are covered by Promethean's warranty offerings.

Promethean also monitors customer feedback and product related enquiries. Of the customer enquiries received over the course of the three years ending 31 December 2017, less than 1% of such enquiries result in a complaint.

As per the below table in 3 years Promethean had 285,866 inbound calls to the Contact Centre, 145 of these were complaints, as such only 0.05% were complaints.

Year	Contacts into Support	Complaints received	% Complaints
2015	99,957	28	0.03%
2016	91,615	41	0.04%
2017	94,294	76	0.08%
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Total	285,866	145	0.05%
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The complaints are dealt with on a case by case basis via feedback Customer Satisfaction surveys. These are dealt with by a dedicated team who record the feedback and in return contact the customers in order to best resolve the 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.

Quality Assurance

Promethean's global Product Quality objectives are working with our supplier/business partners to continually improve product/processes to ensure that very high standards, in terms of Quality, Cost and Delivery (QCD) performance, are achieved.

The overall responsibilities include ensuring that Quality Assurance principles are built into the supplier/business partners new product release and product life cycle processes; whilst also ensuring that they maintain ISO 9001 quality management and other relevant standards.

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 (Public Service Activities)

1. In April 2017, the Company initiated the “2017 International Summer Holiday Trainee (2017國際暑期實習生)” project and conducted accurate selection of candidates making an application by their CV through liaising worldwide with the target universities and finally selected 28 trainees worldwide. They studied and lived in the Company. With the design methodology independently researched and developed by the Company as main courses, tutors instructed them to bang out design ideas.
2. On 20 May 2017, the Company organized the 518 Athletic Meet at Haixi (NetDragon) Animation Creativity City (海西(網龍) 動漫創意之都), attracting participation of 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.
3. On 1 June 2017, the Company invited a group of children in Minqing who suffered from typhoon occurred last year to visit Haixi (NetDragon) Animation Creativity City and experience VR, AR and MR technology with an aim to meet their small wishes to “fly in the sky and swim in the sea (上天入海)” and facilitate children in the mountain areas to celebrate a special Children’s Day.
4. On 20 June 2017, the “2017 VR Innovation and Venture Contest (2017VR創新創業大賽)” organized by the Company was formally initiated. The contest is aimed to create an open VR industrial innovation and venture platform characterized by “VR Hardware + Content + Industry Application + Fund + Incubation” based on the “VR+” innovative system in order to, on one hand, focus on domestic and foreign core VR industrial forces to start a new era of the VR content ecosystem, and on the other hand, consolidate investor, industry expert and independent VR developer resources to realize all-win in respect of VR content production, industry application solution, product development and talent training and export.
5. On 28 October 2017, nearly 30 employees of the Company participated in the “Fuzhou City Happy Running Race (福州城市樂跑賽)” to promote the concepts of happiness, health and friendship throughout the city.
6. In November 2017, the “Qi Gong Inscription Collection Exhibition (啟功舊藏金石碑帖展)” was solemnly opened at Guardian Art Center. Such exhibition was the first concentrated external display of Mr. Qi Gong’s collections. As one of the cooperating parties of such exhibition, the Company created the “Qi Gong VR Museum (啟功VR博物館)” specially for such exhibition leveraging its leading VR technology strength to pay our respects to traditional culture with high technologies.