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# Results Presentation

2016 Second Quarter

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NETDRAGON

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# Overview

# Overview

- Achieved record high revenue growth, driven by both education and gaming
- Strengthened NetDragon's Eco-system through integration of Cherrypicks Alpha and ARHT Media
- Exciting growth opportunities from 3D/VR/AR technologies for both gaming and education business
- Our VR+AR technologies create new business opportunities

# Operational Updates

# Strong Growth in Education

- International education business delivered outstanding performance up 46% YOY on revenue (pro forma)
- Significant growth in China of 93.5% YOY in revenue
- Promethean achieved first time operating profit since being acquired
- ClassFlow™'s user base increased 50% to 750,000
- Both new and existing products will leverage our VR/AR technologies

# Growth Momentum Continues in Gaming

- Flagship games continue to be key revenue driver
- Eudemons online and pocket version delivered record monthly revenue/prepaid income
- Calibur of Spirit continuing to provide strong revenue contribution with sequential growth of 65% in 1H gross revenue
- Very strong pipeline of new games leveraging our game IPs and supported by VR/AR technologies



# Encouraging Development in VR/AR

- New projects continue to grow NetDragon's VR/AR and big data credentials
- Play major role in upcoming games
- Enable the creation of a **New World for Learning**
- Underpinned by rapid take up of VR/AR around the world

# Financial Highlights

# Financial Highlights

<i>(RMB million)</i>	2016 Q2	2016 Q1	2015 Q2
Revenue	786.9	571.6	266.0
Gross profit	437.4	346.4	223.1
EBITDA	165.7	(66.4)	8.0
Non-GAAP operating profit/(loss) <sup>1</sup>	28.1	(111.8)	1.8
Cash, cash equivalents and liquid investments	1,206.2	1,427.5	2,113.4
Cash per Share (RMB)	2.43	2.90	6.72

Note 1: The non-GAAP financial measure of the Group excludes share-based payments expense, amortization of intangible assets arising on acquisition of subsidiaries and fair value change of remeasurement of previously held equity interest in an associate upon acquisition.

# Segmental Financial Highlights

	2016 Q2		2016 Q1		2015 Q2	
(RMB '000)	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	296,697	480,107	284,067	279,942	238,891	13,467
Gross profit	279,736	155,803	264,857	82,936	216,262	5,642
Gross profit margin (%)	94.3%	32.5%	93.2%	29.6%	90.5%	41.9%
Core segmental profit (loss) <sup>1</sup>	99,356	(87,695)	94,314	(133,443)	63,755	(39,372)
Segmental operating expenses <sup>2</sup> :						
- Research and development	82,060	91,390	77,344	87,848	71,509	24,550
- Selling and marketing	37,372	95,323	33,520	87,837	35,000	3,817
- Administrative expenses	66,586	39,090	60,464	38,952	49,786	14,010

Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with HKFRS 8) but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments and gain/loss on derivative financial instrument (eg. related to Series A convertible preferred shares of our education subsidiary), and net change on held-for-trading investments. In order to conform to the current period's presentation, certain comparative figures for prior reporting period have been reclassified.

Note 2: Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortization and exchange gain/loss 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.

# Financial Highlights – Games Business

- Continuing strong momentum with 24% YOY revenue growth
- 57% YOY growth in core segmental profits supported by operating leverage
- Strong pipeline of new games to contribute to revenue growth in upcoming quarters
- New monetization schemes of Calibur of Spirit to further drive revenue growth

# Financial Highlights – Education Business

- Achieving break-out revenue growth at 72% QOQ revenue
- Improved gross margin from 29.6% in Q1 to 32.5% in Q2
- International education business achieving revenue growth of 71% QOQ and 46% YOY on pro forma basis
- Promethean (international education subsidiary) achieving positive operating profits in Q2
- 2H to contribute bulk of 2016 revenue in China

# Outlook

# Outlook for 2H 2016

## Games

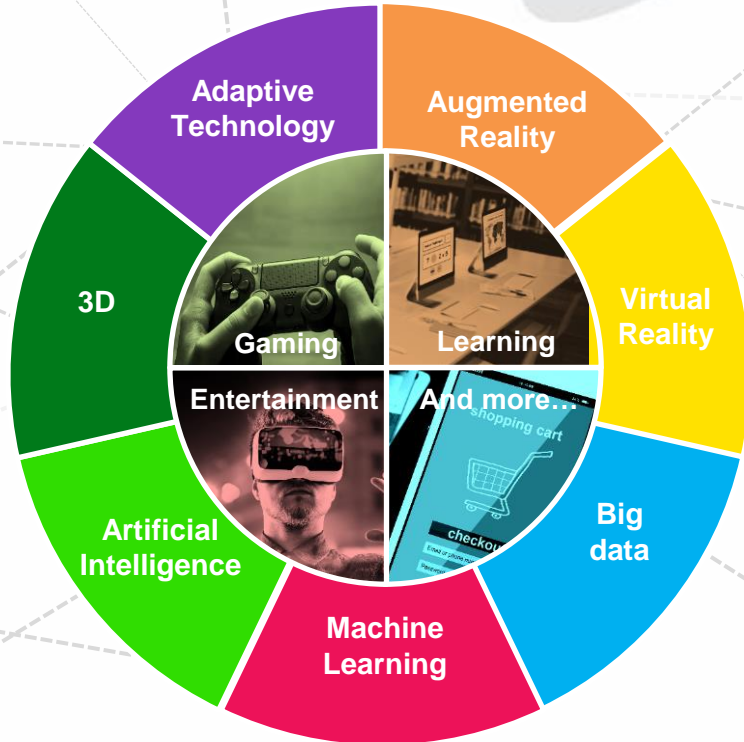
- Expecting a strong 2H for games business with revenue contribution from our new games launches in Calibur of Spirit mobile version and Tiger Knight
- Continuing to increase monetization for Calibur of Spirit PC version
- Calibur of Spirit English version will be launched by end of year

## Education

- International education business continuing to ride on success in 1H, expecting substantial YOY revenue growth (on pro forma)
- ClassFlow™ user ramp up to accelerate in 2H as school year starts
- China revenue to ramp up in 2H



# Building Online Communities – Messaging & Community Platform





## Q&A

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