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Results Presentation

2017 First Quarter Results

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NETDRAGON

13 Jun, 2017

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Overview

We Are On Our Way

Operational Updates

Learning

- Revenue continues to be on the growth path and meeting expectations
- Significant traction in China leveraging partnerships with education authorities to build community
- One Belt One Road strategy taking shape
 - Announced partnership with Moscow City Government
 - On-going pilots and building strong pipeline in different countries
- A successful showing at BETT, Europe's premier education tradeshow in London
 - Being recognised as Star of the Show by one of the key publications
- Successfully launched a new Promethean product line version 5 and Classflow™ 3.0:
 - Latest touch technology , HD and 4K version
 - Better cost structures
 - Offline version of Classflow™
- Opex rationalization efforts making impact
- Continue to build communities in China and Overseas

Gaming

- Record performance in a single quarter
 - 40.3% YoY increase in revenue
 - 78.9% YoY increase in segmental profit
 - 117.4% YoY increase in mobile gaming revenue
 - Trend expected to continue
- Significant increase on ARPU, 55.6% increase YoY
- The newly launched Heroes Evolved pocket version received positive feedback from the market
 - Awarded with recognition as one of the “top 10 most popular online game” by Tencent in January 2017
 - Ranked as “the top downloaded mobile game” for five consecutive months on Tencent Open Platform
 - Monthly active users grew to over 5 million
- Tiger Knight was included by Sony as part of its PlayStation ‘China Hero Project’ in March, gaining access to over 53 million global “Sony Playstation” users

Financial Highlights

Financial Highlights

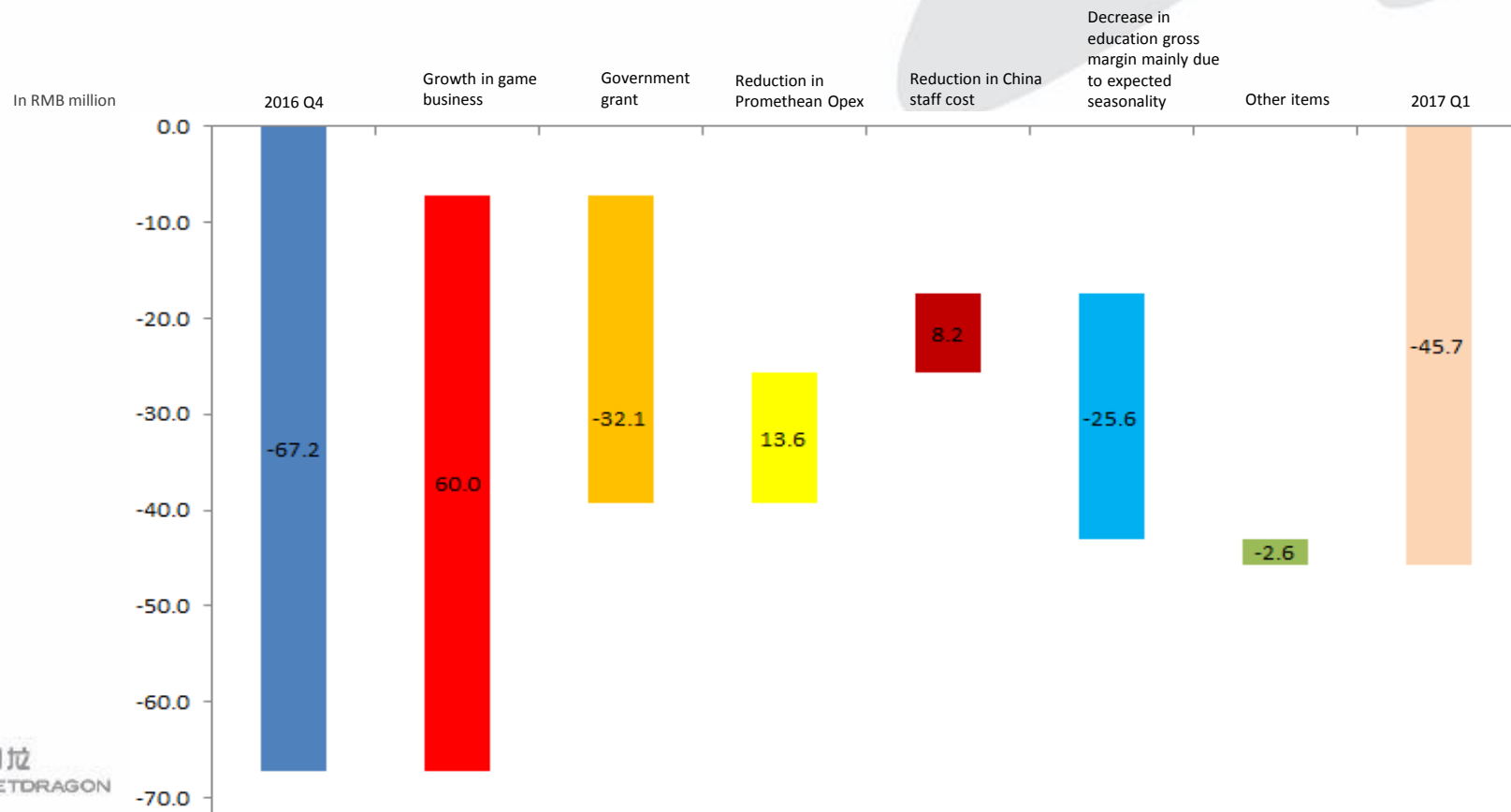
<i>(RMB million)</i>	2017 Q1	2016 Q4	2016 Q1
Revenue	713.4	740.0	571.6
Gross profit	445.8	421.0	346.4
EBITDA ¹	5.6	(34.6)	(58.7)
Non-GAAP operating loss ²	(45.7)	(67.2)	(111.8)
Cash, cash equivalents and liquid investments	883.8	1,084.2	1,427.5
Cash ³ per Share (RMB)	1.79	2.19	2.90

Note 1: EBITDA including the fair value change on financial instruments and extraordinary provision in Q4 2016 in relation to Activwall product restructuring.

Note 2: The non-GAAP financial measure of the Group excludes share-based payments expense, amortization of intangible assets arising on acquisition of subsidiaries, the extraordinary provision in relation to Activwall product restructuring (in Q4 2016) and impairment loss of property, plant and equipment due to the closure of a PRC factory (in Q4 2016).

Note 3: Cash referred to cash, cash equivalents and liquid investments.

Non-GAAP Operating Loss Bridge



Segmental Financial Highlights

	2017 Q1		2016 Q4		2016 Q1	
(RMB '000)	Gaming	Education	Gaming	Education	Gaming (Restated)	Education (Restated)
Revenue	398,501	297,771	342,711	374,029	284,067	279,942
Gross profit	377,275	68,563	317,256	101,256	264,857	82,936
Gross profit margin (%)	94.7%	23.0%	92.6%	27.1%	93.2%	29.6%
Core segmental profit (loss) ¹	168,761	(157,799)	97,898	(157,737)	94,314	(133,443)
Segmental operating expenses ² :						
- Research and development	99,527	88,960	107,229	109,949	77,344	87,848
- Selling and marketing	49,638	94,338	44,623	93,710	33,520	87,837
- Administrative expenses	65,871	36,104	73,307	41,584	60,464	38,952

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, fair value change of derivative financial instrument (eg. related to Series A convertible preferred shares of our education subsidiary), the extraordinary provision in relation to Activwall and impairment loss of property, plant and equipment due to the closure of a PRC factory.

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 – Learning

- Steady 2017Q1 international revenue performance YOY consistent with historical seasonality
- Normalized gross margin was stable at 26.5% (2016Q4: 27.1%), excluding the Moscow deal and inventory clean up (part of product rationalization)
- Cost optimization effort continuing to pay off as our international education SG&A was reduced by 13% in 2017 Q1 YOY
- International education business is expected to achieve a big 2017Q2 from a revenue standpoint and is on track to achieve significant profitability in FY2017
- We continue to focus on user growth in China
- Our China education business delivered solid growth with 118% increase in revenue YOY and contracted sales of over RMB60 million in 2017Q1

Financial Highlights – Gaming

- 40% YOY revenue growth in 2017Q1 on the back of success in Eudemons Online and Heroes Evolved
- 79% YOY growth in core segmental profits in 2017Q1 supported by strong revenue growth and operating leverage
- Mobile gaming revenue increased YOY by 117% in 2017Q1
- ARPU in 2017Q1 increased 56% YOY to RMB 428
- Revenue contribution from new games expected to accelerate in 2H

Outlook

Outlook

- On way to **Operating Profitability** as indicated in last earnings announcement
- Gaming segment -- strong performance to continue
 - Strong **Monetization** effort
 - Continue to **Grow** mobile revenue
 - Continue to **Launch** new games
- Learning segment
 - **Monetization** of our ClassFlow™ community to commence in 2H this year
 - Launching App Store & Content store
 - Launching Social Commerce platform
 - Continue to expand into new **Strategic markets**
 - Russia and other **One Belt One Road** countries
 - South East Asia, starting with Thailand
 - Strategic presence in India
 - To **Accelerate User Acquisition** in China by partnering with education authorities and working with channel partners
 - Revenue growth on track as **Expected**



Q&A

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Thank you!

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