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Results Presentation

2016 First Quarter

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NETDRAGON

June 23, 2016

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Recap from 2015 Q4 Earnings Call

Recap from 2015 Q4 - Education

- Preparing for commercialization of new products in China
- Continuing to acquire and invest in new technologies – 3D/VR/AR
- Building industry-leading 3D/VR content library
- Expecting significant growth and gain in market share of international business by leveraging integration of Promethean
- Seasonality of education market (International: Q1/Q4 low, Q2/Q3 peak; China: Q1/Q2 low, Q3/Q4 peak)

Recap from 2015 Q4 - Gaming

- Growing and monetizing key IP
- Building new mobile games for Calibur of Spirit and Eudemons Online
- Growing Calibur of Spirit PC version with monetization opportunities
- Coming off a strong Q4 for flagship game Eudemons Online
- Getting ready to launch Tiger Knight
- Expanding gaming business to create E-sports community (O2O)

Operational Updates

2016 Q1 Highlights - Education

- Remarkable Q1 consolidated revenue growth of 132.2% YOY driven mainly by education business expansion
- Share gain in major markets around the world
- ClassFlow™ users growth on target (registered users grew to approx. 0.5 million in Q1)
- On track to build the world's largest global learning community

2016 Q1 Highlights – Education (Cont'd)

- Major wins in the U.S., U.K. and China
- Expanded into new markets including Turkey, Myanmar and India
- Major deal roll-outs include:
 - First major win in Turkey
 - Multi-year roll-out in Cypress Fairbanks, Texas
 - Miami Dade decided to go 100% Promethean
 - First products to be sold to Buckingham Palace, London
 - Significant growth in the U.K.

2016 Q1 Highlights – Products (Cont'd)

- Strong progress in product development:
 - 3D/VR content factory implementation
 - VR Classroom development with best-in-class functionalities and user experience
 - Released ClassFlow™ 4.0, with enhanced interface and functionalities
 - ActivPanel™ (V4), new interactive flat panel launched at BETT

2016 Q1 Highlights – Virtual Reality (VR)

- Created an “Open Platform” to support VR/AR ecosystem
- Forming the World’s largest 3D content library for VR/AR applications
- VR editor with a wide range of “scenarios” and access to 3D content library
- Industry focus development includes gaming, education, tourism and entertainment
- Built VR Experience Center to showcase NetDragon’s capabilities

2016 Q1 Highlights – Gaming

- Very strong 26.6% YOY revenue growth attributed to continuous strong momentum in Calibur of Spirit and Eudemons Online Pocket Version
- Calibur of Spirit registered record-high RMB 49 million in single-month gross revenue and 1.7 million in DAU (Daily Active Users) during Q1
- On track to develop a brand new Eudemons Online mobile game, targeted to be launched within 2016

2016 Q1 Highlights – Investments/Acquisitions



Award-winning Augmented Reality technologies

- Acquired 100% stake in cherrypicks alpha in April 2016
- World-class, proven and commercialized Augmented Reality technologies, to support all our products including education and gaming
- Smart location sensing platform (Starbeacon) for shopping community



World's most photo-realistic HumaGrams™ technologies

- Acquired 19.99% stake in ARHT Media in February 2016 with agreement to set up a JV with exclusive licensing of ARHT Media's technologies in China and selected Asian Pacific markets
- Delivers unique and immersive 3D interactive experience – human holograms
- First step in professional training business

Financial Highlights

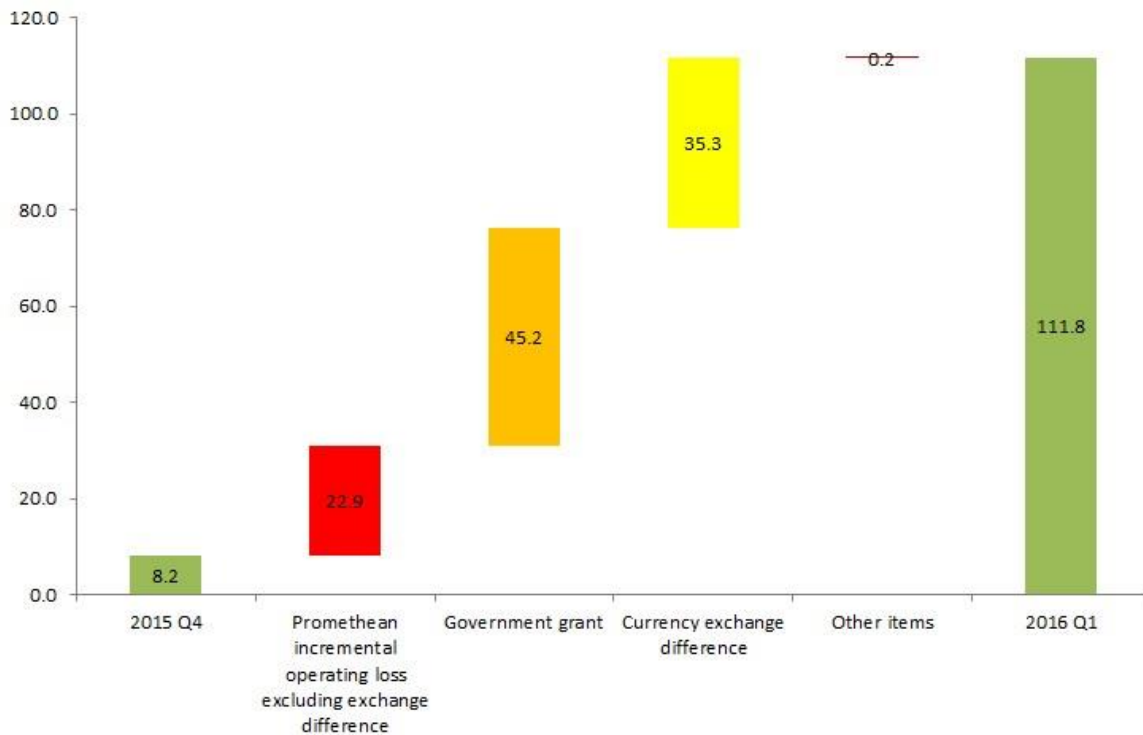
Financial Highlights

<i>(RMB million)</i>	2016 Q1	2015 Q4	2015 Q1
Revenue	571.6	500.6	246.2
Gross profit	346.4	312.4	207.2
EBITDA	(66.4)	0.8	4.8
Non-GAAP operating (loss) profit ¹	(111.8)	(8.2)	7.4
Cash, cash equivalents and liquid investments	1,427.5	1,880.7	2,113.4
Cash per Share (RMB)	2.90	3.78	4.28

Note 1: The non-GAAP financial measures exclude share-based payments expense, adjustment arising from transfer of associates to a non-wholly owned subsidiary, amortization of intangible assets arising on acquisition of subsidiaries, interest income on pledged bank deposit, exchange gain (loss) on pledged bank deposit, secured bank borrowing and convertible preferred shares, net gain (loss) on derivative financial instruments, gain on disposal of held-for-trading investment, net (loss) gain on held-for-trading investments, fair value change of remeasurement of previously held equity interest in an associate upon acquisition and finance costs.

Non-GAAP Operating Loss Bridge

In RMB million



Segmental Financial Highlights

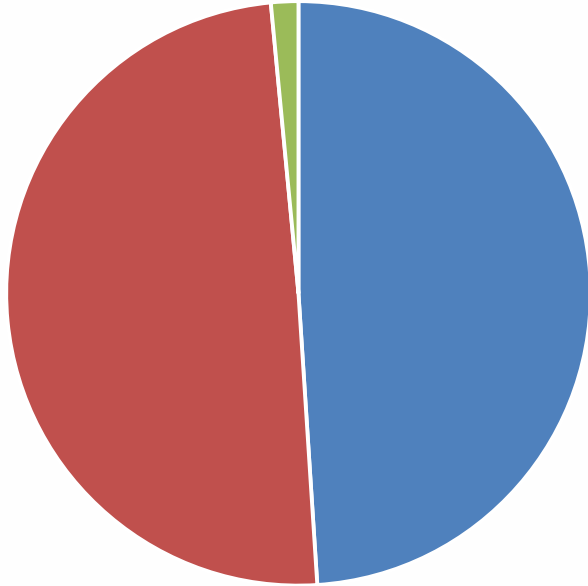
	2016 Q1		2015 Q4		2015 Q1	
(RMB '000)	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	284,067	279,942	283,245	209,826	224,330	9,982
Gross profit	264,857	82,936	264,162	49,474	202,741	2,655
Gross profit margin (%)	93.2%	29.6%	93.3%	23.6%	90.4%	26.6%
Adjusted segmental profit (loss) ¹	107,398	(146,527)	101,757	(130,425)	42,387	(17,687)
Segmental operating expenses ² :						
- Research and development	77,344	87,848	76,331	72,910	74,708	13,158
- Selling and marketing	33,520	87,837	36,922	57,659	27,153	3,266
- Administrative expenses	60,464	38,952	56,707	32,807	56,006	7,059

Note 1: Adjusted segmental profit/loss figures are derived from the Company's reported segmental profit/loss figures (presented in accordance with Hong Kong Financial Reporting Standards) but exclude non-core/operating or non-recurring items including government grant, one-time write-back of reserve, fair value of change of financial assets, net gain on derivative financial instrument (related to Series A preferred shares of education subsidiary), and net loss on held-for-trading investments.

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 the Hong Kong Financial Reporting Standards.

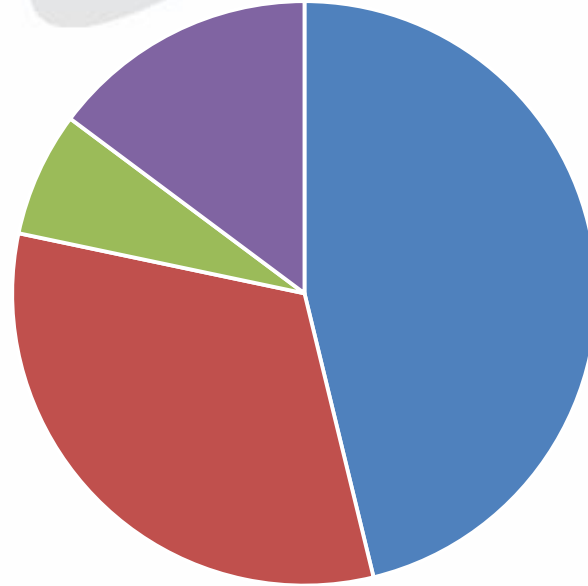
2016 Q1 Revenues Breakdown

By Sector



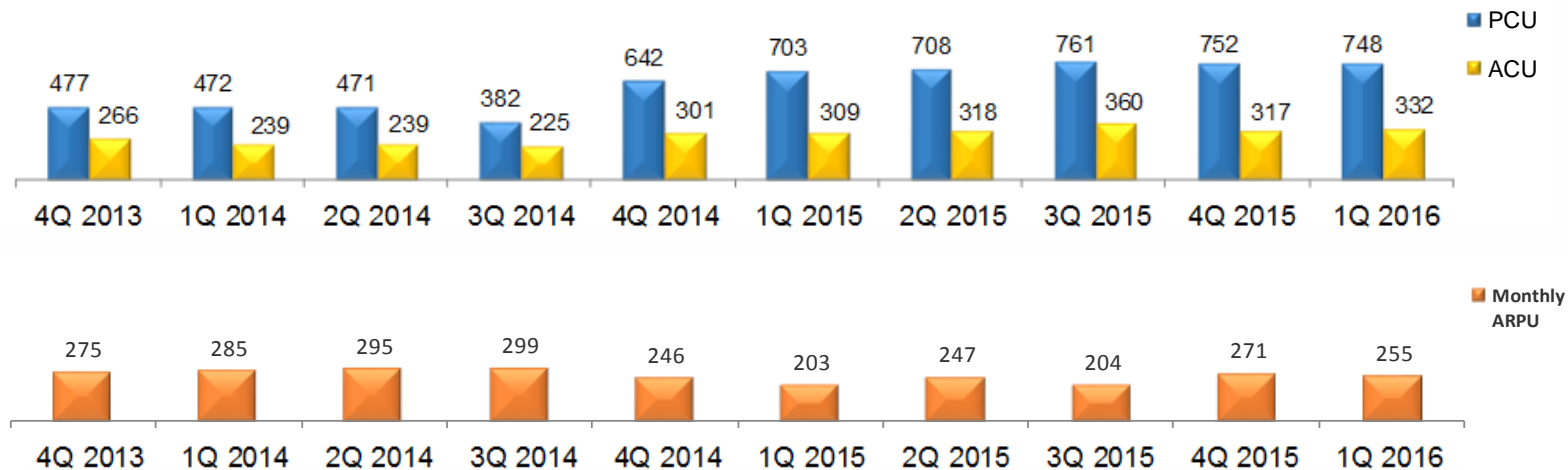
■ Education ■ Gaming ■ Mobile solutions/marketing

By Region



■ China ■ US ■ UK ■ Others

Gaming Operational Metrics



Outlook for 2016

Outlook – Education

- Investing in 3D/VR/AR products, technologies and content
- Expecting strong YOY revenue growth in both China and international markets
- Expanding into new geographies
- Leveraging “One Belt, One Road” initiative

Outlook – Gaming

- Continuing to grow Calibur of Sprit PC version through new monetization opportunities
- Calibur of Spirit mobile version to be launched in 2016 2H
- Eudemons Online new mobile version to be launched in 2016 2H
- Tiger Knight targeted to be launched in 2016 Q3
- More new games expected for Calibur of Spirit and Eudemons Online in 2017



Q&A

IR Contact

maggie@nd.com.cn

ndir@nd.com.cn



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Thank you!

58 WENQUANZHI ROAD, FUZHOU,
FUJIAN, CHINA 350001

www.nd.com.cn

