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Results Presentation

2016 Second Quarter

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NETDRAGON

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Contents

- Overview
- Operational Updates
- Financial Highlights
- Outlook
- Q&A

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) ¹ | 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) ¹ | 99,356 | (87,695) | 94,314 | (133,443) | 63,755 | (39,372) |
| Segmental operating expenses ² : | | | | | | |
| - 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

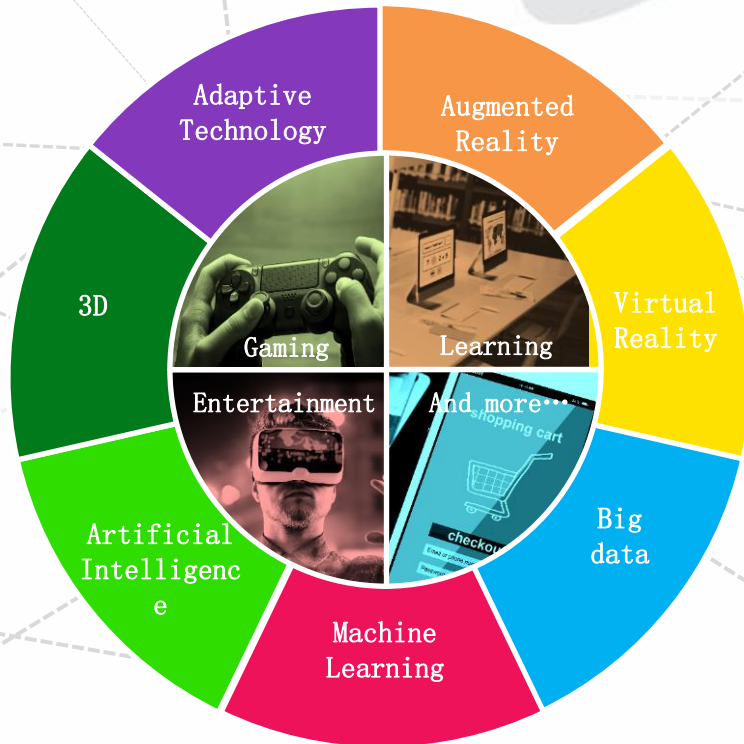
Games

- 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 proforma)
- 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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