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# Results Presentation

2016 Third Quarter

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NETDRAGON

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# Overview

# Overview

- Robust performance from both gaming and education with strong year-over-year growth
- Q3 revenue in line with quarterly seasonality consistent with historical pattern
- Developed the strongest pipeline of new games in recent years to drive growth
- Achieved over 1 million registered teachers on ClassFlow™, on track to accelerate user engagement and ramp-up in user scale in 2017 for our international education business
- Very positive user feedback of 101PPT in China provides the foundation we need to commence large-scale ramp up of users for our education business in China
- Continued to integrate our proprietary technologies into our products (including 3D, VR, AR and Holographic)

# Operational Updates



# Growth Momentum Continues in Gaming

- Flagship games continue to be key growth driver in Q3
- 20% YoY increase in revenue and 27% yoy increase in segmental profit
- Eudemons Online (PC and pocket) revenue grew 17.4% yoy, while Calibur of Spirit grew 17.9% yoy
- Launched Tiger Knight, our new 3D online war strategy game, on Steam platform in October
- Tiger Knight will integrate VR technology in combination with motion sensing device, delivering a unique immersive war fighting experience



# Solid Performances in Education

- Our international education business delivered strong revenue growth on the back of positive user feedback of ClassFlow™ and our unique competencies in our core K-12 interactive display products
- ClassFlow™ users reached 2.4 million including over 1 million teachers globally, laying the foundation for large-scale user ramp-up as we drive engagement and adoption of teachers
- Very positive user engagement feedback on 101 Education PPT, providing the product validation we need to accelerate scaling of users and revenue in China
- Completed development of beta version of VR Editor, the world's first DIY editor for producing VR education contents, solving the major pain point in the VR education space on a global scale



# Financial Highlights

# Financial Highlights

<i>(RMB million)</i>	2016 Q3	2016 Q2	2015 Q3
Revenue	694.5	786.9	259.4
Gross profit	385.0	437.4	215.4
EBITDA	4.7	170.5	6.5
Non-GAAP operating profit/(loss) <sup>1</sup>	(88.9)	28.1	(23.5)
Cash, cash equivalents and liquid investments	1,098.7	1,206.2	2,390.5
Cash per Share (RMB)	2.21	2.43	4.80

Note 1: The non-GAAP financial measure of the Group excludes share-based payments expense and amortization of intangible assets arising on acquisition of subsidiaries.

# Segmental Financial Highlights

	2016 Q3		2016 Q2		2015 Q3	
(RMB '000)	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	286,559	392,220	296,697	480,107	238,961	9,526
Gross profit	266,002	115,436	279,736	155,803	216,593	1,162
Gross profit margin (%)	92.8%	29.4%	94.3%	32.5%	90.6%	12.2%
Core segmental profit (loss) <sup>1</sup>	80,110	(106,301)	99,356	(87,695)	63,286	(73,689)
Segmental operating expenses <sup>2</sup> :						
- Research and development	91,283	95,717	82,060	91,390	70,634	36,757
- Selling and marketing	39,223	81,561	37,732	95,323	35,329	6,756
- Administrative expenses	62,046	32,569	66,586	39,090	56,980	23,099

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 fair value change of derivative financial instrument (eg. related to Series A convertible preferred shares of our education subsidiary).

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 momentum with 20% YoY revenue growth
- QoQ variance in Q3 revenue and profits is due to seasonality impact that is consistent with our historical quarterly pattern
- 27% YoY growth in core segmental profits supported by operational leverage
- Strong pipeline of at least 5 new games contributing to robust revenue growth in 2017
- Our new games will leverage the popular brand of Eudemons Online and Calibur of Spirit as well as the underlying technologies and knowhow

# Financial Highlights – Education Business

- Our international education business delivered solid growth with 20% increase in revenue YoY on a proforma basis
- Q3 to Q2 variance in international revenue due to seasonality consistent with historical trend in the past 4 years
- Through cost optimization and streamlining of operations, in Q3 we achieved a positive EBITDA for Promethean for two consecutive quarters
- China delivered a 482.5% increase YoY with strong contracted sales of RMB 90 million up to October YTD
- Q3 marked the first quarter of large-scale revenue ramp up in China on the back of positive user engagement feedback that validated our product value proposition

# Outlook



# Outlook

## Games

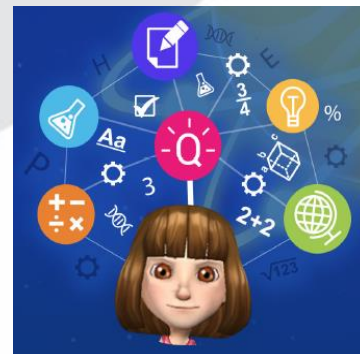
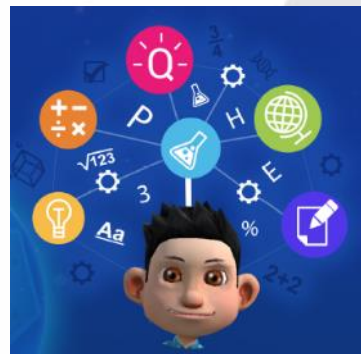
- At least 5 new games to be launched in the next 12 months including our new Eudemons Online mobile game, Tiger Knight (mainland Chinese version) and several games that will leverage the technologies of the Calibur of Spirit
- Eudemons Online expansion pack expected to provide revenue growth in Q4

## Education

- Expecting 2017 to be a big year of user scaling and user engagement on the back of a number of initiatives including transition of loyal users into ClassFlow™ from ActivInspire (our popular legacy lesson preparation software) and Promethean Planet
- On track to ramp up and engage teacher users in mass scale in China next year
- Worldwide launch of multiple exciting new products in the BETT show

# English Galaxy

- Virtual Avatar**: Customise your own avatar's appearance with rewards from missions.
- Personalized Island**: Complete missions and collect stars to purchase buildings, vehicles and accessories to fully customise your own island.
- Achievements & Rewards**: Complete achievements to unravel new goals and collect badges.
- The Galaxy & Planets**: All learning contents are grouped by galaxies and planets for easy monitoring of learning progress.
- English Games**: Doing revision in a relaxed and fun environment through multiple levels of listening and word games.
- Attractive Graphics**: Exciting in-game special effects attract and encourage students.



## Adaptive Data Analysis – Learn English Effectively

- Learning Profile**: Personal profiles identify the daily progress of students and allow students and parents to monitor their learning progress.
- Daily Missions**: Intelligent algorithm generates daily missions to address individual student's needs and accelerate their growth.

# Empowerment Community

- Integral part of 'Life Long Learning'
- True O2O implementations
- Rich experience anytime anywhere
- VR/AR/Hologram
- Enriched Business Case





## Q&A

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