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Results Presentation

2016 Annual Results

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NETDRAGON

23 Mar, 2017

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Overview

Q4 Highlights

- Learning (Education)
 - Total Revenue: RMB 374M 78% increase YOY
 - International revenue: RMB 289M 35% increase YOY on a proforma basis
 - China Revenue: RMB 85M 58% increase YOY
- Gaming
 - Total Revenue: RMB 343M 21% increase YOY
 - PC Game Revenue: RMB 285M 11% increase YOY
 - Mobile Game Revenue: RMB 53M more than doubled YOY
- Included by Hang Seng Large-Cap & Mid-Cap Index, Shenzhen–Hong Kong Stock Connect and Shanghai–Hong Kong Stock Connect

2016 Report Card

Learning 2016 – International Business

- Revenue Growth 32% increase YOY on a proforma basis
- Resources Fully Aligned to capture the growth of the business
 - Product Refresh Cycle in our core markets (US, UK and Europe)
 - Emerging Growth Market/“One Belt One Road”
- Started Building the Online Community for Learning (2.6M users in the US)
- Completed Cost Reduction Strategy
 - Executed Supply Chain Strategy
 - Revamp Channel Strategy in US and UK
- Developed a Robust Product Roadmap of both hardware and software

Learning 2016 – China

- Continued to Grow Revenue Significantly
- Products now cover 32 Provinces/Major Cities
- Signed MOUs with various provincial and city governments
 - Focusing on technology, Big Data, Training, Talent Development
 - To advance the government’s initiatives in education
 - Support “One Belt One Road” Initiative of China
- Publicly released a range of VR Products, including VR Editor
- 101 Education PPT being adopted by circa. 100K teacher users after a short time on the market
- Signed Cooperation Agreement with Pearson and other publishers to develop VR/AR contents
- Developed close relationship with renowned institutes like Harvard University and Beijing Normal University

Gaming 2016

- 2016 full year revenue was RMB 1.2 billion, representing 23% increase YOY, Q4 was RMB 343 million, representing 21% increase YOY
- Eudemons Online PC and pocket versions both reached historical record high monthly revenue during Q4, driven by expansion pack release, newly-integrated MOBA game-play, and new social/player interaction scheme
- Mobile gaming revenue posted a break-out quarter in Q4; mobile growth trend expected to continue
- ARPU continued to increase on the back of enhanced game-play and monetization schemes
- Long-awaited mobile version of Heroes Evolved (formerly known as “Calibur of Spirit”) in China officially launched in December, and was recognized as “the top downloaded mobile game” on Tencent Open Platform in January 2017
- Tiger Knight PC English version and VR Version launched in Q4

Cherrypicks 2016

- Won major/high visibility projects in Hong Kong and aboard
 - Hong Kong International Airport
 - Hong Kong Shanghai Bank
 - Hong Kong Jockey Club
 - MTR
 - Fo Guang Shan (Taiwan)
- Continued to develop and rollout Starbeacon Technology (over **30K** base stations installed)
 - Location Intelligence Technology
- First ever NetDragon B2C/B2B learning products coming from Cherrypicks
 - KIZVR
 - English Galaxy
 - VR/AR/AI
- First Do It Yourself AR product – ARWIZ

Financial Highlights

Financial Highlights

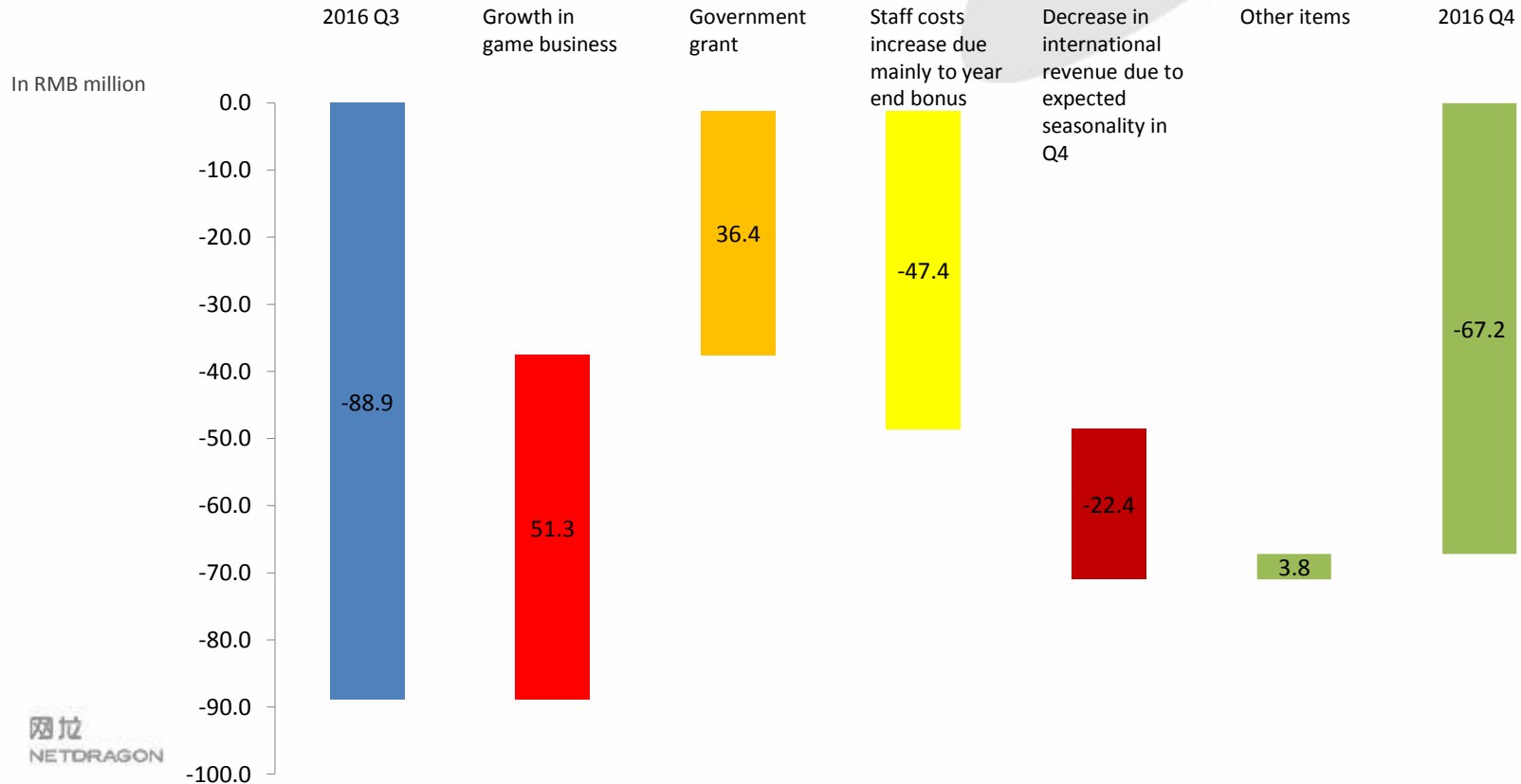
<i>(RMB million)</i>	2016 Q4	2016 Q3	2015 Q4
Revenue	740.0	694.5	500.6
Gross profit	421.0	385.0	312.4
EBITDA ¹	(34.6)	4.7	12.8
Non-GAAP EBITDA	(9.6)	(31.5)	32.8
Non-GAAP operating loss ²	(67.2)	(88.9)	(8.2)
Cash, cash equivalents and liquid investments	1,084.2	1,098.7	1,880.7
Cash ³ per Share (RMB)	2.19	2.21	3.78

Note 1: EBITDA including the fair value change on financial instruments and extraordinary provision 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 and impairment loss of property, plant and equipment due to the closure of a PRC factory.

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

Non-GAAP Operating Loss Bridge



Segmental Financial Highlights

	2016 Q4		2016 Q3		2015 Q4	
(RMB '000)	Gaming	Education	Gaming	Education	Gaming (Restated)	Education (Restated)
Revenue	342,711	374,029	286,559	392,220	283,245	209,826
Gross profit	317,256	101,256	266,002	115,436	264,162	49,474
Gross profit margin (%)	92.6%	27.1%	92.8%	29.4%	93.3%	23.6%
Core segmental profit (loss) ¹	97,898	(157,737)	80,110	(106,301)	90,080	(117,871)
Segmental operating expenses ² :						
- Research and development	107,229	109,949	91,283	95,717	76,331	72,910
- Selling and marketing	44,623	93,710	39,223	81,561	36,922	57,659
- Administrative expenses	73,307	41,584	62,046	32,569	56,707	32,807

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

- Our international education business delivered solid growth with 37% and 32% increase in revenue YOY on a proforma basis in Q4 and full year 2016
- International gross margin increased from 26% in 2015 to 31% in 2016 on a proforma basis, on the back of our integration effort to improve operational efficiencies
- Q4 to Q3 variance in international revenue due to seasonality consistent with historical trend and market norm, and as previously communicated to the market
- China delivered a 58% and 109% increase in revenue YOY in Q4 and full year 2016, respectively, with strong contracted sales of over RMB 200 million in 2016

Financial Highlights – Gaming

- 21% and 23% YOY revenue growth in Q4 and full year 2016, respectively
- 9% and 43% YOY growth in core segmental profits in Q4 and full year 2016, respectively, supported by operating leverage
- ARPU in Q4 increased 29% YOY to RMB 369
- Mobile gaming revenue increased YOY by 120% in Q4 and 100% in full year 2016
- Mobile gaming revenue accelerated sequentially in Q4 with 45% increase QOQ
- Successful launch of Heroes Evolved pocket version in late December expected to catalyze revenue in 1H 2017

Outlook

2017 Outlook

Learning Business

- Best product portfolio in 2017
 - Software – ClassFlow™, App Store, Content Store, AR Wiz, VR Editor
 - Hardware – the most complete range of panels with latest “Flat Frog” technology
- Aggressively acquiring or partnering to gain access to “Content”
- Gain traction in Emerging markets, e.g. Moscow/Russia
- Continued to establish and build on the Learning Community
 - Worldwide, including China
- Starting our push into B2C market with both hardware and software, e.g. KIZVR, English Galaxy
- Launching the “Engage Community” – part of Life Long Learning Vision

Gaming Business

- Expecting a break-out year in our mobile gaming revenue, driven by Heroes Evolved pocket version and more mobile launch to come
- On track to launch several new games leveraging our proven IPs and technologies
- Upside in VR gaming (VR Tiger Knight already launched and more to come)
- At least 5 new games to be launched in 2017 expected to drive revenue in 2017

The ENGAGE Community

BEFORE



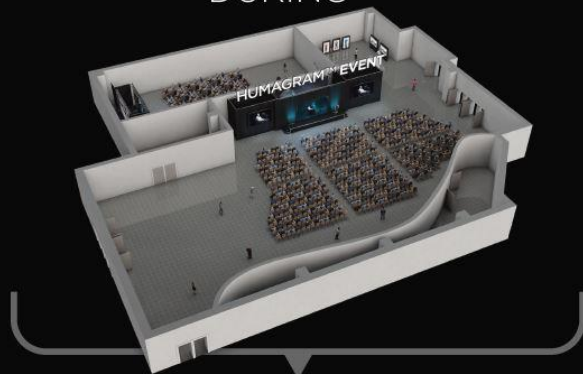
Community Portal

REGISTER

PROMOTE

MONETIZE

DURING



CAPTURE

On-line Events
Live & Pre-Recorded



TRANSMIT

2-way transmission



DISPLAY

Multiple Locations
Simultaneously

Live Secondary Screens



AFTER

Ancillary Distribution
Off-line Events

MOBILE



VIRTUAL REALITY HEADSET



AUGMENTED REALITY HEADSET



TABLETS



MAC / PC



2017 Outlook

- Continual Growth in both Learning and Gaming businesses
- Overall learning revenue will grow faster than 2016
 - Product Refreshment Cycle
 - Emerging Market/"One Belt One Road"
- Gaming revenue grow in double digits
- Total online Learning Community in 2017 expected to grow to over 10M users Worldwide including China, including over 3M teachers
- Expecting revenue from monetization of the learning community
- ***Target to achieve profitability in 2017***



Q&A

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