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## NetDragon(0777.HK) 2020 Interim Results Conference Call and Webcast

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### NetDragon's Management Team

Dr. Simon Leung, Group Vice Chairman and Executive Director

Mr. Ben Yam, Group CFO

Mr. Lin Chen, Group Senior Vice President

Mr. Vin Riera, CEO of Promethean

Ms. Susan Kim, CEO of Edmodo

### Moderator:

Dear friends, good morning. Thank you for joining NetDragon Websoft Holdings Limited today for our 2020 interim results presentation. Our presentation PPT will be broadcast on the live streaming platform and the PPT is also available for download on our company website at [www.nd.com.cn](http://www.nd.com.cn) under the investor relations tag in the IR webcast section. Before the start of our presentation, please allow me to introduce the management who are joining us today. Dr. Simon Leung, Group Vice Chairman and Executive Director; Mr. Ben Yam, Group CFO; Mr. Lin Chen, Group Senior VP; Mr. Vin Riera, CEO of Promethean; Ms. Susan Kim, CEO of Edmodo. Now let's pass the time to Dr. Simon Leung to hold our presentation today.

### Simon Leung:

Thank you everyone for attending our call today. Good morning, good afternoon and good evening to our friends in the US. It's good to be here. I am doing this call to you in a hotel room in Hong Kong, because I will be locked up for 14 days as I just came back from Egypt. Later on, in the call, you would know why I have to go to Egypt. But anyway, that's why I'm not wearing a mask. OK, let's get the call going. I think the agenda is very simple. I think you all are very familiar with the sequence and most of the people. Of course, we have a new joiner today, Lin Chen, so welcome. If I may, I will bring everyone back to our last announcement, which is the one we did for 2019. We did touch a little bit on the year because there came the question about the impact of COVID-19.

So at the time we did talk about different businesses. For example, for Promethean, Vin will talk a little bit more about it later on. The message we gave last time was that there was some impact on the business, but more from a timing perspective than from a revenue perspective. And that's why you see some of the impact. There was also impact on Edmodo. The impact was quite interesting and Susan will talk about it later on during the call. So if you look at our results in the first half, actually our revenue grew. The reason for the smaller growth is actually the impact of COVID-19. And there is some impact on the profit because of the combination of the deals being pushed out to the 3<sup>rd</sup> quarter and 4th quarter, product mix and also because of the way we cast our budget. We cast it according to our original forecast. Even though we have made some rapid changes in terms of how we do our businesses, there is some impact because our changes don't match the rapid change in the timing of the sales. Ok next page.

So there's a little bit delay in the slide, so maybe I'll start talking about it. If you look at the gaming business, sorry, I'm really struggling with the slide here. I hope you're seeing the slide now, the one with the operating metrics. Every time we show you some metrics, you will know the progress that we have. Gaming remained the same. And the big changes are all around learning. It takes about 30 seconds to get the slide going. If you look at learning, it has changed quite a bit. If you look at our MAU, it went up to over 20 million, and the DAU was actually 4 million plus. The peak was over 5 million. So that's where we are.

So exactly there're a lot of positive changes in terms of our operating metrics. And then you will see some of the results after that. A quick comment on gaming because Lin Chen is going to the detail. It grew a little bit. COVID

did impact our gaming business because of the age group of our players. They are a little bit more mature and there are more small-medium business people. So COVID impacted their spending. They were not spending as much.

So that's why we were still growing but grew at a single digit year-over-year. But the good news is that we took advantage of the first half. We spent a lot of time working on and accelerating the metrics of our gaming business and also expanding it in overseas. So we are seeing very good progress on that one. And also because of COVID, we didn't launch any new games in Q1. This is not going to be the case in the second half, and Lin Chen will talk about it. So if I may, I'll move into learning. The biggest impact is actually on Edmodo business. If you remember how we position our education business, it has always been around the ability to learn in the school, in the classroom, at home and also in your mobile. That's exactly what blended learning is all about. So COVID-19 has not only supported our vision but also accelerated that vision.

So again we're very excited about it, not excited about COVID-19, but excited about the fact that COVID-19 kind of allow a vision of blended learning to realize earlier. So that's really exciting for us. The next page is actually just a quick snapshot of what we do. We design hardware and software that go into the classrooms, go into your devices and everything. We also support services and content. So that's what everybody's looking for. So I think I'll give you a very a quick case study on the next page which is about Egypt, the place I came back from 5-6 days ago. I'm still in quarantine, but I'm kind of happy because of Egypt. You may have seen our previous press releases about Egypt. What happened in Egypt last week is that we visited them and spent a lot of time with the ministry of education. We signed the MOU with the ministry covering basically the entire software architecture of the education system in Egypt. So we are supporting them with our software and hardware. And the tools that we have, number one is for the blended learning. And we also start to integrate all the resources. So the students can do learning anywhere at any time. Right now Edmodo is actually supporting over 12 million students and teachers with the goal of going up to 22 million.

Also, the content is integrated. And we also signed an agreement with them to continue to deploy the Promethean panels into all the classrooms and also continue to work with them on the global classroom opportunity that we have. We also talked about creating a joint venture. So we can really support them not only in Egypt, but once everything is implemented, we're going to take it outside of Egypt. Because it's a very comprehensive solution. The solution will be very well suited not only for developing countries, but also for developed countries. There're a couple of other projects I can mention. Actually, one is called "Leave No Child Behind" project. The idea is to give devices to all the students in Egypt. It could be a handset or it could be a tablet. The key is that we have all the resources on the device. So students can use that device to access everything through Edmodo or through the Promethean panel to access everything. The other notable initiative is our online tutoring platform. This is a service that we launched last year, piloted in the US beginning with a lot of good support. And we're going to use it to complement all learning that the ministry of education is providing to all the students in Egypt.

We also start to do some vocational training with them. As you all know, we are not only just an education company, but we are also a gaming company. So we're going to help them through Edmodo. The vocational students can learn coding, graphics and also design. We also provide them our game engine to allow the student to start innovating and be an entrepreneur after they learn our system. So we are actually very excited. Our work with Egypt is actually very comprehensive. We will impact the education system, but what's even more exciting is that we can take that to outside of Egypt and go to other countries. Okay. With that, I've talked a lot about Promethean. I'm going to hand this over to Vin, our CEO of Promethean. He will take you through what he has done in the market and the outlook for the rest of the year.

**Vin Riera:**

Great. Thank you, Simon. Hi everybody my name is Vin Riera and I am the CEO of Promethean. Today, I'm going to talk about the new market dynamics that emerge with the ongoing COVID, our first half 2020 performance and share some information about our top markets and areas of growth. I am not able to see the slides. Somebody changed it. We should be on the first slide now which is the First Half Highlights. Let's start with the First Half

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Highlights. Promethean's revenue was up 8% and unit volume was up 10% compared to our prior year given the first half of the year was impacted by school shutdowns and a push to blended learning and remote learning.

I'll provide more context from the trend we saw as schools are trying to refocus their efforts from educating students in the classroom setting to educating their students in a remote and blended setting. In January and February, it was mostly business as usual, we were selling interactive panels with lesson delivery software. In March, many schools began to shut down. And by April we saw the shift on interest in how our products are used in a blended learned environment. Even though many schools were shut down, administrators and decision makers were still working and sales cycle continued. Some schools focus on remote and blended learning solutions while others took advantage of placing orders to install while the classrooms were temporarily empty so that they're ready for the upcoming school year. Other schools sorted out more permanent blended learning solutions. In all cases, this was a priority shift for our customers.

Promethean uses this as an opportunity to align our resources on the markets that were continuing to make buying decisions and work for schools that need a blended learning solution by emphasizing how our panels and lessons delivery software can be used in the classroom in a blended environment and even remotely. Aside from adjusting the messaging on our product, we adjusted how we engage with our customers. We made the shift away from events, trade shows and in-person selling. By the end of March, Promethean was completely virtual just like our customers. By the end of Q2, approximately half of our orders were being purchased as part of a blended learning application. There is no single use case, schools wanted to be prepared for multiple scenarios. Some schools planned on returning to the classroom in this fall. Others planned on a partial return and many after that have a plan to be fully remote or have students remote where a teacher was in the classroom engaging with students virtually.

This shift in the first half happened fast. While engagement with customers and partners did not slow down, volumes had a sharp drop off in April and May before picking back up again in June. By June, many of our sales were made with the intention to be used for blended instruction. Outside of our run-rate business, the tender business that is typically sold through the ministry of education was slow in much of March, April and May. Tender did increase and conversations around tenders began to increase in late June. Great example, the project in Egypt that Simon mentioned earlier that incorporates products from all the NetDragon companies and includes hardware, software and even pop-up classrooms.

Let's move on to the next slide which is the volume growth. This next slide shows the volume through year over year above the pace of the market. Overall, Q1 was a strong quarter and much of the momentum that was created in Q1 was converted to orders in late Q2. Many of our larger customers stayed on track and continued to place orders consistently throughout the first half of the year. Egypt also took delivery of their orders during the first half of the year allowing us to work through the backlog. In geographies that were inaccessible during periods of mandatory shutdown, Promethean focused on recruiting new channel partners by emphasizing our brand recognition, financial stability and availability of inventories. In multiple cases, we are successful in recruiting new channel partners. Many of these partners we recruited were seeking an interactive flat panel provider that had our financial stability, available inventory and saw value and differentiation in our hardware and software products. As I mentioned earlier, the shift to virtual events allows us to stay engaged with our customers and channel partners while we work remotely. And I believe that these activities in quick response to a blended learning solution had a positive impact on our volume growth.

I'm now going to move on to the next slide, which is the volume growth trend. The next slide is a 3-year view on first-half shipments. The dark bar represents the panels that we sold excluding the large tenders that we won in Russia and Egypt. The light bar shows the overall panel volume. There are two points that I want to make on this slide. The first is that Promethean has successfully competed for and won large tenders in both Russia and Egypt with bespoke products over the last three years. This business while initially new to us has become part of our company's core competency. As you can see volumes may vary year to year, but to the extent there are tenders that we can compete for, we have a solid track record of winning that business. The second point I want to make on the slide is that our core business excluding tenders was flat in the first half of the year. This reiterates my point that in parts of the world that were open for business, we were able to sell our products. In geographies that were

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completely shut down, sales opportunity shifted to late Q2 or pushed into the second half of the year. Just to be clear not all regions are recovering in Q2 and some regions continue to be impacted in Q3. But in the regions that are open, we are engaged in winning business.

Moving on to the next slide. This next slide illustrates that we're the number one provider of interactive front-of-classroom devices. In the first half of 2020, Promethean was successful at holding our leadership position, and in some countries like the United States we were able to grow share in the first half. We have an established base of customers that buy from Promethean. They upgraded newer technology or expanded new school buildings. Many of the teachers using Promethean panels or whiteboards also use our lesson delivery software, ActivInspire, ClassFlow to teach their lessons. This combination of hardware and lesson delivery software makes Promethean use case much more integrated of a solution than our competitors that only have a hardware solution. Our engaged user based coupled with the differentiated offering of hardware and software help us retain our current installed base and win new customers.

Moving on to the next slide, I'm going to talk about the growth trajectory in our major markets. Even during this pandemic, Futuresource estimated that the global IFP volumes to return to near normal levels in Q4 and begin to grow again on a full-year basis in 2021. Our largest markets in the US, UK, Germany and Egypt are projected to grow between 12% and 20% through 2024. The growth will come from mature markets like the UK that have been using interactive devices for decades and have been through multiple replacement cycles that are now replacing legacy technologies with newer interactive panels, and other markets that have recently adopted interactive flat panels and are outfitting their classrooms for the first time. Another point to consider is with the ongoing COVID, many schools purchased a one-to-one device for their students. In a blended learning environment, schools will need to consider their classroom technology to support the students new to one-to-one technology.

In the next few slides, I'll give an overview of some of our largest markets to illustrate how each has room for growth over the next few years. So moving on to the next slide, the UK and Ireland growth opportunities slide. Let's start with the UK and Ireland market, which happened to be the first market Promethean entered over 20 years ago. This market has 644,000 classrooms of which 96% of them have an interactive front-of-class device. At the end of 2019, only 35% of the classrooms had installed an interactive flat panel, which is the latest technology. Futuresource estimates by the end of 2023, 60% of the UK and Ireland market will have moved to interactive flat panels. The growth that we can expect in the UK market will be from converting classrooms from interactive whiteboards to interactive flat panels. The UK market is an example of a growing market that is in a replacement cycle with a very small number of classrooms that never adopted a front-of-class device. There are also funding sources to assist this technology change. An example in the UK is the transformative rebuilding program which provides 1 billion GBP per year over the next 10 years.

Moving on to the next slide, which is the growth opportunity in the US. I'll provide context on the US, which is currently Promethean's largest market. The US has approximately 2.8 million classrooms. At the end of 2019, 81% of the classrooms had an interactive display, but only 17% of those classrooms had an interactive flat panel. Promethean's market share in the first half of 2020 was 28%. Futuresource estimates that the US market will increase adoption of interactive flat panels from 17% to 58% by the end of 2024. Growth in the US will come from classrooms upgrading to newer technology and from schools buying interactive panels for the first time. Funding for schools in the US comes from federal state and local governments. And the most recent change in funding was the addition of the CARES Act which will provide an additional 13 billion USD in funding to help offset the cost that schools incur as a result of COVID.

Moving on to the next slide, which is the growth opportunity in Germany, which has a much different market dynamic than the other two markets that I've talked about. At the end of 2019, there were 528,000 classrooms, yet only 36% had implemented an interactive display. Out of the 36%, only 7% were interactive flat panels. Futuresource estimates that the interactive market will grow to 55% by the end of 2023 and the largest growth area will be interactive flat panels. The German market is an example of one that has significant room to grow. A critical element in growth is funding. And the German digital school reform initiatives are being supported by a 5 billion Euro in

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Digital Pact funding. The Digital Pact funding, coupled with a rapid adoption of interactive flat panels, makes this a great market for Promethean.

The next slide talks about the growth opportunity in Egypt. The Egyptian market is different from the other markets I've discussed today. In Egypt, we're working with the Ministry of Education and many of the teaching and learning initiatives. Promethean plays an important role by providing our classroom technology in a blended learning environment with other companies within the NetDragon family products. This model where we sell multiple products to the Ministry of Education of a country is something that we believe we can replicate with other countries.

Finally, on the second half 2020 outlook slide, I'll provide some insight into the second half of the year. There will continue to be several unknowns due to COVID as different geographies continue with ways of shutting down due to the pandemic. As we did in the first half, we're going to apply all of our focus and resources on the markets that are doing business, and continue to drive demand and awareness in the markets that may be slower to come back. Distance learning will continue to be at the heart of our message, specifically how our products work in the classroom and with blended instruction. In the second half, we're going to build on our K-12 market leadership position. We will continue to work with our channel partners and win new business, replacement business and continue to work in the emerging markets. We'll have meaningful product releases that enhance the teacher experiences, and assist IT managers in remote management of their devices. We're going to stay on track for recovery back to pre-COVID business. It may be a while in some countries, but the trend that we are seeing matches Futuresources' unit volume estimates that we will see a near full return in Q4 volumes. I personally believe that COVID has escalated the need for schools to have a blended learning model in place, and that students will return to the classroom at some point. Promethean will also capitalize on the trend to adopt classroom technology for a blended or distance learning solution. There are large funding sources that we will work with and work with our customers to access and we'll work together with NetDragon and Edmodo to provide a more comprehensive solution for our customers. Thanks for your time today. I'm now going to turn it over to Susan Kim, CEO of Edmodo.

**Susan Kim:**

Hello everyone. Edmodo has always been at the forefront of education technology, offering an all-in-one solution for hybrid learning. And it is the only learning platform that brings all the stakeholders together, teachers, students and parents, to support learning everywhere. And even before COVID makes distant learning tools a necessity, Edmodo offers the best classroom tools enabling synchronous and asynchronous learning, content integration and robust collaboration community features. Next slide.

Around the world, user engagement and active user growth have grown tremendously in a short span of time. I think there's probably a lag on the slide.

**Simon Leung:**

Yeah.

**Susan Kim:**

Just going to wait a second because the chart is really good. Slide 25.

**Simon Leung:**

I think you should keep talking, because the delay is actually a quite bit.

**Susan Kim:**

So around the world user engagement and active user growth have grown tremendously. Italy has grown at over 11x. This is where we compare pre- and post-COVID. Spain at almost 4x. Indonesia at almost 6x. Egypt at 126x. Overall, we've seen our global number increased by 4x including our daily active user. Next slide.



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Edmodo used to be a free business and a product focused on bottom-up acquisition acquiring users on a teacher-by-teacher basis. This year we have rapidly shifted our focus to school district and country-level customers, moving to a top-down acquisition model, driving rapid scaling of user acquisition and driving even higher level of user engagement. 27 next slide.

With our global reach and large installed user base, Edmodo has signed on key partnership. We are the only learning platform offering a seamless Zoom integration and we recently find a global partnership with one of the leading content publishers around the world, Pearson.

Slide 28, with renewed focus on schools, districts and country-level customers, we have launched an annually recurring business model. So in this model, the non-enterprise version of our offering, teachers will continue to be able to use Edmodo for free. However, schools and districts will pay for annual subscription licenses that are offering Edmodo plus. State and countries, they will pay on top of the annual subscription license an upfront implementation fee. The enterprise version of Edmodo offers far superior robust administrator control, privacy setting, private content.

Side 29. In just a short amount of time, we have built a strong pipeline globally. In the US, driven by CARE funding that Vin referenced, we've got over 40 deals in the pipeline which includes school districts as well as other organizations beyond school. So for example, we've got the Girls Scout of America, which represents 2 million users as well as religious organizations and nonprofits. So demand for our product moves beyond education. There is also strong demand globally with ministries of education and school districts looking to rapidly digitalize education. Now I'll turn it over to Chen, Senior Vice President for gaming.

**Lin Chen:**

Greetings. I'll go through the performance of our gaming business now. In the first half of 2020, it maintained growth with two main drivers. One is the substantial growth of active users of our Eudemons IP, and the other is the growth of our overseas business revenue. The growth of active users this year proves that our long-term investment in IP and user management has been very effective. Since gaming is a cultural and creative industry, the positivity and quality content that we deliver through games can also be considered as cultural output.

On the other hand, we've been launching marketing events and investing in branding. Our investment in developing the Eudemons Online IP over a long period of time has proved to be successful. The increase in active users is a great surprise and has laid a good foundation for the long-term stability and revenue growth of our games in the future.

Next, I'll talk about our major games.

The first is our flagship game, Eudemons Online. We did a lot of popular marketing campaigns on Eudemons Online in the first half of the year. They've conveyed a message to users that Eudemons Online is a strong IP with unceasing vitality. The collaborations of Eudemons Online with The Palace Museum and other domestic blockbusters have made it a growing and thriving IP to players. Meanwhile, regarding our marketing campaigns in the pan-entertainment space, we collaborated with other IPs, as well as the band Black Panther. Playing games means more to players than just entertainment. It is also a cultural experience and represents a lifestyle. As mentioned earlier, the return of a large number of users in the first half year of 2020 shows that our efforts have borne fruit. This increase is a bit beyond our expectation, and this demonstrates that players will have more faith in the game as we continue to improve it.

The second one is another MMO game, Conquer Online. This year, we've launched big expansion packs, new gameplays and new content. The life cycle of Conquer Online is longer than that of Eudemons Online. To retain the existing players and attract new ones, we constantly update the game by doing what we are good at, which is producing MMO content. We have also upgraded the content and services. Considering that there are more and more players using the mobile version, we've made it a big focus in our plan. We will serve our players on both the PC and the mobile version in all aspects.

The next to introduce is Heroes Evolved, a MOBA game. MOBA is a game genre with a large user base. The overall user base is very important. In the past, Heroes Evolved was known for its heroic characters, especially those who are famous in Chinese history such as Zhuge Liang. We've been building the width and depth of the characters. This year, we collaborated with the well-known anime IP OVERLORD twice, and the results were remarkable. Both the existing users, especially the younger ones, and the new users love the crossover. They can experience the traditional Chinese culture and the Nijigen culture in the game at the same time. This collaboration can enrich the game content and build a more robust environment for competition. As the user base expands, the characters and skins will drive stable revenue growth momentum. We plan to expand the IP user base through continuous IP crossovers in the second half of this year and next year.

Next, let me introduce our IP and user base, which are critical to our operations and gaming strategy. As part of our important gaming strategy, we've been devoted into operating our IPs. Take Eudemons Online as an example, its overall user base has already reached 300 million and the user base of Heroes Evolved IP has reached 200 million. For players of Eudemons Online (Simplified Chinese Version), they started playing the game when they were young and they've continued to play the game even in college or at work. Their habits of playing games have changed. But they are still considered active IP users. We've been promoting all versions of the IP, from the PC-mobile cross-platform version to the mobile, HTML5 versions. We need to keep our valuable IP users in the user base of the Eudemons Online series. It can reduce the user acquisition cost and increase user stickiness. We build the product portfolio of an IP based its characteristics. For example, we focus on the content when it comes to MMO games. For MOBA games, the emphasis is on competition, social interaction and teamwork. To meet diverse user preferences, we've launched different products under the Heroes Evolved IP. This will convert our users from players of one single game to the entire series of the IP.

In addition to the MMO and MOBA games which we specialize in, NetDragon has an overseas casual game IP Neopets, which has 150 million historical users. There are a web version (Neopets.com) and a mobile version developed in the early days. In fact, we've been applying our successful experience in IP operations into the Neopets IP. The new games Neopets Island Builders and Neopets Match 3 would cater to the changing age and gaming habits of the IP users. And the Neopets TV series could deliver our content to the IP users in the best way, which would keep them stay active in the IP.

Now we will move on to our plans for new game launch. One of the key points we talked about earlier is that we will continue to build content around IPs. We have long-term plans for launching new games based on existing IPs. We will launch Eudemons Mobile II, Eudemons Storm II, and Legend of Eudemons based on the Eudemons IP as a sequel of the mobile version or a new attempt in other genres. Take our H5 game (Legend of Eudemons) as an example, a player who has the habit of playing H5 games could bring in other players of this genre with him to our (Eudemons) IP, which helps injecting fresh blood to the IP. Meanwhile, Under Oath is not just considered a new Nijigen game, but an IP which we will keep developing and operating.

Next, I would like to introduce our overseas development plan. Over the past few years, our overseas business revenue has grown thanks to the investment and attempts we made in the early days. Our geographical and game genre advantages have been fully leveraged in improving the R&D and publishing work in certain markets. For example, we've combined the gameplays and contents that have proven successful in China with the habits and preferences of overseas users to promote our IPs. Apart from that, some new games will be launched overseas in the second half of this year and 2021 will see more of them. We have R&D teams both at home and abroad. We will first bring more of our domestic games to the overseas markets and at the same time continue to exchange ideas with overseas R&D team. For example, Neopets Match 3 is the fruit of the collaboration between the two sides. We not only apply the successful monetization methods of our domestic games on their existing users but also share our IP user management experience with the overseas Neopets IP team. I believe such collision of thoughts will bring us stronger growth momentum in overseas markets.

Finally, I'd like to dwell more on the rejuvenation of the Eudemons IP, which reflects our understanding of gaming, content, innovation and creation. In our view, the success of Eudemons Online is not just the success of a game. It is also a cultural product that caters to people's emotional needs. From the very start, players are drawn to the

passionate and exciting gaming experience of Eudemons Online. They stay active and keep spending on the game. What they seek for in the game is not only fun but also psychological satisfaction. In the past, fighting bosses and using some skills could bring the players feelings of passion and excitement. However, as time goes by, this emotional appeal has changed. So we've also been adjusting to this. For example, in recent years, we have integrated some new ACGN elements into the twelve Beasts of Nian in our games. The innovation won applause from the new players and was also accepted by some old users. Thus, we plan to complete the updates of core element of Eudemons IP by the end of this year, including the rejuvenation of our Eudemons characters, to better meet the needs of young people. At the same time, we will release a variety of IP series extension products, such as animation or comics, to deliver content in a way that is more acceptable and welcomed by today's players. We believe no matter in which era, passion, excitement and brotherhood are always the players' pursuits. So what matters for a game is not just its gameplay, but the underneath philosophy and possibilities. As we mentioned last time, a game may have a growth ceiling, but IP has no boundaries. Well, that's the end of my introduction to the gaming business. Next, our CFO Ben will share the financial information. Thank you.

**Ben Yam:**

Thank you. Hello everyone, glad to be here virtually with all of you. I'm going to quickly take you through our financials in the first half. If you go to the first slide, on the top line, we got revenue growth for both our gaming and education businesses in an environment which has presented us with both short-term challenges and also tremendous opportunities in the near term and over the long run. On the cost side we have been very disciplined on cost control. That resulted in roughly flat year-over-year selling & marketing as well as administrative expenses. Overall, our SG&A increased by roughly about 6% and I was saying most value is due to the increase in our staff salaries on a relatively stable headcount. If we go to the bottom line, you notice that our net profit decreased by 20%. But the difference is primarily due to several accounting GAAP adjustments or charges which are not really related to our operating performance. And I will go into more details on that in the later slides. If you look at the non-GAAP EBITDA and non-GAAP operating profit, I would say that is much more fair representation of the true profitability picture of the company. You can see that the earnings shown in the slide dropped roughly about 3.6%. That's mainly due to the higher SG&A as mentioned. Also, COVID-19 has affected Promethean earnings in Q2, which is typically the peak season of the whole year for Promethean. It's been pointed out that we do expect the second half is going to come back strong and we're going to be gradually getting back to normal in terms of our profit growth. Last thing on this slide that I want to highlight is our operating cash flow which increased by 26% year-over-year, despite the drop in accounting profits. We were able to exercise very strong discipline in working capital management to ensure that our cash flow stays healthy.

In the second slide with the segmental breakdown, a little bit more details to go through. The top line of our education business continues to generate growth despite a challenging market for Promethean in Q2. The gross profit declined due to product mix or more precisely the mix between tender and run-rate business. Because in first half, we recognized revenue for major tender. And because of the large size of the tender and its strategic nature, the margin is lower than the usual run-rate business. And if you take out the tender business, the gross margin is actually over 30%, which is in line with our normal margin level. In terms of the core segmental loss, it has increased. The main reason is due to the US tariff impact on our Promethean products. And the other one is actually increased server hosting cost due to a lot higher user traffic for our education business. And the last reason is the increase in staff salaries. On the gaming side, as mentioned, in the first half we were able to maintain our revenue growth with a stable bottom line.

Ok, we go to the third slide. I thought for this earnings presentation, it would be very helpful to show a couple of bridges. First of all, for the net earnings, for the accounting net earnings bridge, you can see there is a drop in the earnings. But as you can see in this chart, 80% of the drop actually came from accounting GAAP charges which are largely non-cash related and are completely not related to the operating performance of the company. In particular, it's worth to note that the finance charge and exchange expense on the CB are actually related to the fund-raising round which we closed in March this year with Ascendent Capital Partners on our education business. It actually valued our education business at USD 1.35 billion. That round was actually more structured as a



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preferred round, but technically it was structured as a CB round. That's why we have all of those accounting charges that you can see on this chart.

Ok, on the fourth slide, it is actually a bridge that shows a better picture of our operating performance because it shows a picture from a cash flow perspective. As you can see, we were able to maintain healthy growth of cash inflow from operations despite the accounting profit drop. And part of that, again, is due to our ability to execute our operation process and working capital management with discipline. Ok, I'm going to turn it back to Simon, who is going to take us through the outlook.

**Simon Leung:**

Thank you, Ben. Let me reiterate that in the last many announcements, we have emphasized on operation excellence. I think once again, we show our ability to manage our business. What Ben said about our cash flow is one of the very important metrics that we have improved greatly. We managed our cash flow in a down market, mostly on the education side, and a lot of the credit goes to our team in education.

The other point I want to reiterate is what Vin has talked about. We are growing our business in Promethean even in a down market. We could be impacted by product mix and some tariff and all that. But if you fast-forward, for the rest of the year, we are very confident that we'll recover from that. And also if you recall what Susan has talked about, even though we have to pay for more hosting cost as the traffic went up, our SaaS revenue is coming in the second half of the year. We are very confident we can capitalize on the trend of blended learning. We are also very confident that starting from the second half, the monetization of Edmodo, especially the SaaS part, would be seeing a lot of good results. Also just remind everybody that we were able to pivot our business from a very difficult COVID situation into the new operating model both on the Promethean standpoint and also from the Edmodo standpoint, which I believe is actually very impressive.

Of course, I cannot kind of close this without talking about the Egypt MOU. It is a very comprehensive framework that we're working with the Egyptian government. We're going to be spending a lot of effort and a lot of time to implement that MOU and the result will be shown in the second half of the year.

Lin Chen talked a lot about gaming, so I'm not going repeat that way too much, but we are confident they will grow the gaming business half-over-half. We will continue to launch new game for the rest of the year. So with that, thank you, we are very confident that we will rise through this COVID-19 wave. And then we'll get into a growth phase with blended learning and also with the gaming business. With that, I'm going to stop and I think we will go into Q&A session. Thank you.

**Moderator:**

Thank you, Dr. Leung and thanks you management for the presentation. Now it is the time for Q&A session. You are welcome to raise the questions in two ways. First, if you would like to raise the questions through the telephone system, you may press the \* 1 on your phone keypad. And our operator will bring you through. Second, if you would like to raise the questions through our webcast platform, please press the black mark and type your questions in the Q&A box. Our first question. Operator.

**Susanna Chui, DBS:**

Hi, thank you management. Thank you Simon and Ben for taking my question. I have two questions. The first one is about the online game. Your online game revenue growth is moderate, at about 5% in the first half, whereas your peers have around 20% to 40% growth year-over-year. May you elaborate more on the reason behind? You said that your company has not launched the extension packs. Any expansion packs in the pipeline in the second half that the management share? And can we also know the second half growth outlook and also 2020? And the second question actually is about online education. The MAU has grown to about 23 million by Q2. May we know if the management has a target in monetization in second half or like this year? Or any numbers of the target of any ratios like ARPU.

**Simon Leung:**

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I suggest either Lin Chen or Ben take the first question and I will take the second one.

**Lin Chen:**

As Simon mentioned earlier, although there's an increase in our active users, the impact of COVID-19 on the real economy did affect our regular paying players and our overall revenue to some extent.

It's also related to the life cycle of game development. In the first half of 2019, we had revenue from the new game called Eudemons Storm and other mobile games. But this year, the pandemic delayed the progress of the new game launch. In the second half of this year, we'll launch Eudemons Storm II and Legend of Eudemons. Eudemons Mobile II will be launched at the end of this year or at the beginning of next year. According to this plan, there will be far more games launched in the second half than in the first half. We expect that these new games can drive the revenue of the gaming business.

**Simon Leung:**

Ok. I think I will talk very quickly on the Edmodo revenue or the SaaS revenue. Actually, I don't think we have disclosed our Q1 MAU. Our MAU has grown tremendously in the last six months if you go back to our last announcement. So the nature of the SaaS business is actually multi-year contracts. Our contract actually involves charging per student or per teacher. We can't disclose the detail of a lot of our contract. But I can make a statement. You will see a lot of effect coming in the second half of this year. Susanna, as you know, we don't give guidance. I will leave it at that.

**Moderator:**

Let's welcome our second question.

**Feiya Zhao, Haitong International:**

Good morning Simon and management. Thank you for the sharing. I have two questions. The first one is about the gaming business. Can you also share your future strategic plan for games, especially for mobile games? What's your plan for launching mobile games? In addition, we can see that there are several casual games coming in the future. Can you introduce the payment model? What's your plan for casual games? Another question is about the education business. As we all know, some of Edmodo's business operates in the US. I'd like to ask what the impact of the current US-China relations is on Edmodo's business. Have you made any evaluation? For Promethean, I wonder that, with the pandemic in retreat, has the sales volume of Promethean increased? We can see that the volume of orders in the first half looks pretty good. Can we assume that there will be a half-over-half increase in the second half?

**Lin Chen:**

I think we can divide our mobile game business strategies into two parts. The first is to make profits through existing IPs, successful gameplays and business models. Games like Eudemons Online Pocket Version, Eudemons Online Mobile, Eudemons Storm and Eudemons Storm II are all profiting from their successful payment models. On this basis, the IP helps increase their revenue and user numbers. This practice is recognized by game developers in the industry.

The other one is to be innovative. In particular, the genre of casual game that you just mentioned has been evolving all the time, from the traditional match-3 gameplay to the combination of match-3 gameplay with RPG elements, like Homescapes. That's why we'll take Neopets Match 3 as an example. Neopets as an IP has a huge user base, and the users have strong attachment to it. So, we plan to combine the RPG elements with the match-3 gameplay to make the IP users stay active and keep spending.

As for the payment and business model, Homescapes has proved that its model can achieve long-term active user activities and players are willing to spend on the IP they are attached to. This model will work for Neopets. Its IP users will be willing to spend on the characters and elements they grew up with and love. In fact, users won't just pay for the gameplay. Just like Nijigen users and other IP users, they would pay due to the quality content, their

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attachment to the game and things that attract them. These are our thoughts on the payment model and how to maintain active user activities. Thank you.

**Simon Leung:**

Although we seldom promote Neopets, it's an IP with a large user base. We've been developing several new games and try to build an ecosystem. We are actually quite confident about the development of Neopets overseas.

For the impact of the US-China relations on Edmodo's business, yes, we did make some evaluations. We've been doing this ever since the acquisition of Edmodo. We always comply with US laws and policies. For example, all the data of US users are stored in the US and processed in accordance with US laws and regulations. All employees in the US office are Americans. At the same time, we also comply with the local laws and regulations of Europe or other countries, because Edmodo has business globally. We will protect all the user data carefully and deal with them under the guidance of laws and regulations.

Moreover, since we are developing fast, we will invest more resources in Edmodo.

For Promethean, I think so. The sales volume will increase half-over-half. Promethean is different from other companies. We had sales growth in the first half when the global market was difficult. As Vin mentioned earlier, our sales revenue in the US and some European countries have increased since May and June. We are very confident in the second half of the year unless the impact of the pandemic escalates. But so far, we haven't seen any signs of it. Therefore, it's very promising in the second half.

**Moderator:**

Let's welcome our next question.

**Liping Zhao, CICC:**

My first question is about the gaming business. I saw that the gaming revenue was up slightly and the gross profit was also relatively good in the first half of this year. But was the operating profit affected by any expense increase?

**Simon Leung:**

Sorry, I can't hear very clearly. Could you please turn volume up a little bit?

**Liping Zhao, CICC:**

Can you hear me?

**Simon Leung:**

OK. It's better now.

**Liping Zhao, CICC:**

So, my first question is about the gaming business. I saw that the gaming revenue was up slightly and the gross profit was also relatively good in the first half of this year. But was the operating profit affected by any expense increase? The second question is about Edmodo. In your presentation, Edmodo will make breakthroughs in monetization. So what kind of breakthroughs? Could you go deeper into the Edmodo's business model? My third question is about the implementation of your MOU with Egypt. Will the pandemic postpone your business implementation in Egypt?

**Ben:**

Thanks for your question. Actually, there was no special expense on our gaming business in the first half of the year. In the past few years, you can see our gaming expense increased slightly every year. We have a stable workforce. However, in China or around the world, companies need to motivate their employees through incentives, such as salary raise. Besides, if a company wants to develop, its internal operating expense would be expected to increase. As the revenue increase in the first half year was moderate, the bottom-line growth was flat. But in the

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long run, we believe the top line will sustain growth and the expense will increase steadily. Generally speaking, the overall profit of gaming business will keep climbing steadily in the future.

**Simon Leung:**

I'll take the question about Edmodo. The breakthrough will come from the transformation from a free model to a B2B model. In our current contract, the SaaS subscription charges on a per-student basis annually, so we will have recurring revenue soon. In the future, our contracts will be changed to charge per student with a multi-year term. However, our previous monetization method will be still in the run, including the advertisement and paid services. We just add another charging mode.

Our contract with Egypt specifies the fee charged for each student. The MOU has always been in progress. The pandemic has nearly no impact on us as we are running most of our work online. We usually provide remote supports and have meetings on Zoom or Edmodo as Edmodo has already been integrated with Zoom. We can depend on our own technologies to continue supporting the MOU implementation. Well, the only slight impact we found is on our Intelligent Classroom, because they need to be manufactured in China, transported to Egypt, then assembled locally. Now, our 100 Intelligent Classrooms have already arrived in Egypt. The assembly will only be a problem of time.

**Moderator:**

Let's welcome our next question.

**Linlin Yang, Guangfa:**

Thank you, management. My first question is about gaming business. The growth has been beyond expectation in the past few years, especially for the core IPs. Take Eudemons Online as an example, we see that the number of users and gross billing soared rapidly and the DAU grew by 40% year-over-year in the first half of this year. So what about the revenue? How much room for growth is left for the IP? Then about mobile games, as the financial report doesn't disclose its revenue, I wonder how much revenue contribution or growth do the mobile games have? For your overseas gaming revenue, what are the main drivers for it? The financial report discloses it accounted for almost 12% of the total gaming revenue. Regarding the education business, how much did the Covid-19 affect the overseas implementation of Promethean's business in the first half of this year? Will the impact continue until the second half? In the first half, it seems the loss or loss ratio of your education business didn't narrow. Lots of investors are wondering if this is due to the pandemic, or your increased investment in Edmodo because of its good performance? And what do you think of the future profit or loss of your education business?

**Lin Chen:**

As for the user number and revenue of Eudemons Online, in fact, the game's overall player composition and players' spending habits may be quite different from other games. Like our own MOBA game, its spending peak came in summer or the first half of the year during the pandemic. The revenue of Eudemons Online has always been relatively stable in the first half of the year and even better in the second half. As I just mentioned, its significant revenue growth in the past few years has been driven by the growth in active users and ARPU. However, in the first half of the year, the pandemic has hit the economy and thus the income and spending of some users. In general, we tend to work on attracting users in the first half of the year as Chinese New Year is a good window. This time, in face of the challenge, we've conducted more campaigns to attract returning users' activities. And the hard work has paid off. But we are not putting all-out effort in driving up the revenue. As you can see, the user base of Eudemons Online expanded in the first half while the average spending of the users was still quite stable.

Now, I'll move on to the future of Eudemons Online. The existing games of the IP have been growing rapidly in the past. In the first half of this year, the PC game maintained growth, and its user base and revenue could be kept stable. For mobile games, the slight drop (in revenue) mentioned earlier due to their life cycles. Last year, our mobile game revenue was driven by sequel and new games. The ecosystem and users' habits of these games are quite different from PC games. Although the revenue of Eudemons Storm, which was launched last year, and some other mobile games derived from Eudemons Online declined this year, the launch of new mobile games like

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Eudemons Storm II, Eudemons Mobile II, and the HTML5 game Legend of Eudemons in the second half of this year will reinvigorate the overall revenue growth of mobile games.

As for the Eudemons Online IP, its overall user base, series extensions and revenue have been expanding. We will continue to increase investment in it as we believe its gross billing can keep growing. Next is about overseas revenue. Our first overseas game, Conquer Online, was a main revenue contributor. However, starting from this year, due to some specific and continuous optimization in localization and efforts devoted into game operators, the overseas revenue of Eudemons Online has basically become equal to and even exceeded Conquer Online. I think there are two revenue drivers for overseas games. One is our existing games. The deeper we understand about the overseas market, the better we can promote our games there. The other one is games under a global IP designed for overseas users, like Neopets Match 3. The two drivers have their own uniqueness and can promote diversified and healthy development (of our gaming business). Those are my views. Thank you.

**Simon Leung:**

For Promethean, actually, the whole interactive panel market was severely hit in Q1 and Q2, but Promethean still achieved growth. Its performance is rather good. As I mentioned before, the order and revenue picked up in May and June and this gives us even more confidence in the second half of this year.

There are multiple reasons for the loss of our education business. First, you're right about Edmodo. It is showing strong momentum. And as Ben explained before, a big chunk of our expense is to cover the server hosting fee. This is closely related to our contracts in the pipeline. The revenue of Edmodo may show significant increase in the second half of the year. The other part is about Promethean. The product mix problem has impacted the gross profit margin. Although Promethean did achieve revenue increase, the gross profit margin was somewhat affected. However, its gross profit margin for the whole year should be normal. Please just wait and see our performance in the next half of the year.

**Ben Yam:**

I have something to add regarding the loss in the education business. There's a rather big issue concerning the tariff. We've made a reserve on Promethean's P&L for the potential tariff to be paid assuming the highest tariff rate. This way is more conservative. In fact, this reserve did not reflect on our cash flow. Actually we don't think we need to pay the highest tariff. The other issue is about the cloud (hosting cost) of Edmodo as mentioned by Simon. So, the hosting cost and tariff are the main reason for the expanding loss that you see.

**Simon Leung:**

Ben has mentioned a significant point, the reserve. We haven't paid the tariff yet. Actually, we are trying to be exempted from this tariff pay it because we think our products should not be impacted. So, I hope we will have some good news for you in the next year. Thanks.

**Moderator:**

Let's welcome our next question.

**Jack, Doric Capital:**

Greetings. I have been keeping an eye on Eudemons Online and playing it myself for a very long time. I have three questions about the game. First of all, what's the role of NetDragon in launching the Eudemons series? Will you only provide the IP or also participate in the game development? What is the company's share of the gross revenue of the games? Is it 8% or 25% for each, or 35%-40% in total? Is there any guidance for Eudemons gross billing? How about the gross billing of Eudemons Mobile II that will be launched in the second half of this year?

The second question is about the monetization of Eudemons. I noticed that in the past few years the rapid revenue growth of Eudemons can be largely attributed to the Monster Nian Hunting event. However, I also heard that the policy has been tightened since last November or December. I wonder if this affected the monetization of Eudemons?



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If so, did you come up with any solutions this year? The revenue growth in the first half of this year is 5%, which is relatively slow. Was it affected by the policy?

The last question, are you confident in competing with The Legend of Mir and other mobile games with similar gameplay? We can see that in the first half of the year, the MAU and DAU of these games are picking up, including those old games launched by Shanda. Will you be able to maintain the revenue? Will there be negative growth?

**Lin Chen:**

Like what you said, as an IP, it has a variety of R&D and publishing models. The Eudemons series has adopted different models, such as self-development and self-publishing, agency development, third-party publishing, and IP licensing. Eudemons Online and Eudemons Online Pocket Version are developed and launched by us, and the Eudemons Mobile is developed by us and launched by third-party. Some are just IP licensing. We aim to maximize the value of the IP when deciding which model to adopt. The publicity of an IP needs to be enhanced constantly. Different games under the Eudemons IP that were launched in the past have greatly strengthened the faith of our IP users in the IP, as they continue to see updated content and gameplay.

As for the revenue split, I think large-scale IPs can generally enjoy higher revenue split than average ones in the industry. I think there may be a norm regarding revenue split in the industry. For high quality games published by Tencent, the split of gross billing would be around 10-20%. If the game is self-developed and self-published, the split will be higher. The split is usually set based on the form of cooperation.

In terms of gameplays, Eudemons and likes of The Legend of Mir have targeted different types of players. Companies in the industry will use different mature game models and monetization methods to acquire users and make profits. For example, The Legend of Mir has several variations of user models. In the H5 game Legend of Eudemons, we have combined some successful elements of Eudemons with some successful gameplays of other games. According to the test data, Legend of Eudemons can attract users from other same type of IPs. It is possible for other IPs like The Legend of Mir to attract our IP users, and vice versa. It depends more on the publicity of the IP and the maturity of gameplay and monetization. Currently, we can't tell who has the advantage in the market. We need to consider it comprehensively.

As for game monetization, in China we can consider various methods to generate revenue reasonably and legally. We hope Eudemons Online can develop in a healthier manner and we won't rely on a single way to generate revenue. After all, it's a RPG game and it's important for us to develop different charging models, such as those related to appearance or with a flaunting nature. Besides, IP series extension products also attract attention from IP users. In the first half this year, we did crossovers with some sneaker brands and content collaboration. It will be an all-round service for players, not just a single item. Thanks.

**Moderator:**

Let's welcome our next question.

**Yue Zheng, Senlin Capital**

First, I want to ask about Promethean. Could you disclose the shipment and the year-over-year difference between Q1 and Q2? In which markets will Promethean be more affected? Secondly, I would like to know if the R&D staff has been affected by the pandemic. Did you raise the R&D investment in the first half year? Could you please give some guidance on the revenue and profit of the learning and gaming business respectively? Thanks.

**Simon Leung:**

It's actually Ben or Vin. So, the question is actually about Promethean Q1 and Q2 shipment numbers. Do we have it right here or should we provide it afterward?

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**Vin Riera:**

I don't have that from here. That would be a follow-up.

**Simon Leung:**

Sorry, we don't have the data at hand now. But Vin has already given the shipment data for the first half of this year. If you're interested in the exact number of Q1 and Q2, we can provide it to you later.

Just as Vin said, NetDragon, Promethean, and Edmodo are all technology companies. That means we can rapidly change into the work-from-home model. It's not only the R&D team who has this ability, so does our marketing department. Vin also mentioned both of them can shift online in a very short time, so we can response fast to the pandemic.

We don't give guidance, but I've said in the outlook that our gaming business will grow half-over-half. The second half will be better than the first one. It's the same for the education business, especially for Edmodo because we've signed a lot of contracts for it.

**Moderator:**

Thank you. Due to the time constraint, we would like to welcome the last question. As many questions on the webcast platform are similar to the questions in the phone call, so we will not repeat here. Next question.

**Miss Leung:**

Is it ok to speak English?

**Simon Leung:**

Of course.

**Miss Leung:**

OK. Actually we are private investor from a family fund in Hong Kong. I have a few questions. I think some of the audience may not understand Cantonese, right? Okay, I can speak in English. Actually, our family has been watching the company for a few years, and last year we started to invest quite heavily in the company. So that's why I am an attendee. We would like to know what's going on in the company. Regarding the top line, we expect it to be in line with China's gaming business growth. And I just heard some of the audience's questions. It seems to me that there were some one-off happenings last year. That's why last year business was boosted a lot and that's why it looks like that the growth rate (this year) slowed down a lot. Is that a case or are we really losing some market share to our competitors? Is it a temporary situation or do you expect that will continue in the coming 2 years? That's my first question.

**Simon Leung:**

Let me make some general comment. Maybe Ben or Lin Chen go into detail. It is actually not. If you look at our gaming business. I would say for the last 2.5 years, maybe 3 years, we've been growing actually at a double digit year-over-year.

**Miss Leung:**

35% actually.

**Simon Leung:**

Thank you. Well, it is actually double digit year-over-year (growth). So we've been growing. My point is that it is actually not just about last year's boost. That is point number one. Point number two is that when you're growing so fast, your base is becoming bigger. So I mean they will affect the growth rate. It's also because of the nature of the players. The players on Eudemon are different from a lot of the other mobile games because other players you're looking at are more in the mobile area and we are kind of both in mobile and also in the PC game. So with that either Ben or Lin Chen can make a comment on the specifics.

**Ben Yam:**

Yeah, maybe I can elaborate a little bit, right? So I think if you look at the performance in the first half, as Simon mentioned, we've been growing at over 30% CARG for the past few years in the gaming business. So in the first half, Lin Chen also kind of mentioned the specific reasons, right? First, COVID-19 is having an impact on the some of the spending pattern of our players especially in Eudemons, because in Eudemons we have a lot of high spending players and their spending was a little bit affected by COVID-19. That is expected to be temporary, right?

And then the second thing is -- if you look at our growth forecast in the next few years, I mean you cannot rely on just all the existing games to grow forever, right? Obviously you have to rely also on the new games. And if you look at the new games, we have a very robust pipeline of new games. A lot of them weren't launched in the first half. And I would say that the COVID-19 also has an impact on the development and the testing schedule of our new games. But going forward, we got several games in pipeline that will be launched by the end of the year. We got three Eudemons games launch month by month in the next few months by the end of the year. We got Eudemons Storm. We got Eudemons HTML 5, and also Eudemons Mobile 2. So I think going forward, we'll be looking at more growth coming from our new games which we are confident about. Lin Chen, could you please talk about the outlook on our new games, especially about Eudemons Online?

**Lin Chen:**

Yeah, let me take over this part. In the past few years, we have had significant growth in gaming revenue. For PC games, its revenue curve has been relatively stable. For mobile games, the situation is pretty the same in the whole industry - there is a revenue curve during its life cycle. As mentioned before, Eudemons Storm I released last year and other series extension products of Eudemons Online are all contributing to the revenue. In the second half of this year, we plan to release Eudemons Storm II and Legend of Eudemons. By that time, our overall revenue curve may change a bit. Because of the pandemic, the R&D period of these two mobile games will be longer, thus affecting the year-by-year revenue. This is one reason.

Another reason is that, when we talk about the gaming market, revenue is just one thing, the other is users because what we pursue is a healthy and long-term development. Our gaming system can change with the times. We also keep fine-tuning the business plan, in areas such as MMO, MOBA, and casual games, to maintain a stable user base and revenue. For example, users of our MMO games are more mature and willing to pay, while those of MOBA are younger. We hope our different IPs can cover users from different age groups. In this way, the overall user community can keep expanding, driving the revenue to develop in a sustainable, stable, and healthy way. These are our main considerations. Besides, Eudemons Storm II and Legend of Eudemons HTML 5 to be released in the second half of this year are not brand new products but are with proven gaming models, so their revenue is supposed to be stable.

**Miss Leung:**

So is it fair to say that the company did not have any intention to shift some resources from gaming to education, and gaming will still be the focus?

**Simon Leung:**

Yeah, actually, we don't see that happening at all

**Miss Leung:**

Yeah, because I saw the investment – the R&D on gaming. The run rate is about 18.5%, and it looks like you were keeping that rate in the past few years. So I really expect that you would keep that in the future.

**Simon Leung:**

Yep, you're exactly right.

**Miss Leung:**

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There's some concern in the market. It looks like education will need a lot of resources so that would divert some resources from gaming to education.

**Simon Leung:**

No. If you can remember, actually we did a raising for the education business at the beginning of the year. That's where the CB is coming into place. We are really separating the investment into education versus our investment in gaming.

**Miss Leung:**

Sorry, Sorry, I still have one last question. It's regarding the education. Actually why we invested in your company last year because it looks like your company has a lot of potential. The market price of the company has really reflected that. For example, on the education side, we expect at least it's worth about 10 billion RMB in the market if you compare to other peers. So do you have any intention to spin off the education from the games in the future? Because we look like for the game part, we believe it's worth at least 10 billion and education at least 10 billion or even more than that. So it looks like now you are being unfairly valued in the market. If you can spin off, you can actually get extra capital for the education business.

**Simon Leung:**

Actually we couldn't agree with you more. So I think that's why you also invest in our stock. There may be upside. So I think we did talk about this particular subject in a previous call or event. So it is our intention. Eventually you will have the education separate from the gaming business. So the sum of all parts is better than where we are. So we don't have to deal with the whole holding discount and all that you are absolutely right. If you look at the CB, the pre-money valuation is actually 1.2 billion USD. In the post-money, I guess 1.35 (billion). So that's a 10 billion RMB. So actually we do exactly the same math as what you do.

**Miss Leung:**

I look at all of your peers, you know, I just can't believe why you are so cheap and that's why we think there's huge potential to be honest. And I think it's also a good timing because in the past the investors for H shares were very conservative regarding companies not making money, but that's no longer the case. If you are companies that are not making money, they're still very highly regarded by the market, you know? It looks like actually most of educational companies are not making money, but they still can raise a lot of funds. I think you have to change -- separating the game from education business and repackage it a little bit. I really can see that you have very high potential.

**Simon Leung:**

We can't go into the detail.

**Miss Leung:**

That's why today when your stock price dropped 15%, I think great, you can buy more because I really expect your company worth at least 23 to 25 billion. Really.

**Simon Leung:**

We agree.

**Miss Leung:**

Thank you. That's all, thank you.

**Simon Leung:**

Thank you for the comment. We couldn't agree with you more on that one and thank you for investing into our company. I can assure you your investment will be handsomely paid off soon.

**Miss Leung:**

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Actually we have to tell you a little bit. Because I think there are so many smart investors in the market. Why they can't see it? But we just do it. I think it's a little bit to do with packaging. You see all the other education companies.

**Simon Leung:**

I think you are absolutely right. When you're a multi-portfolio company, people -- to your point about packaging and then people would think: Am I investing in the gaming company or am I investing in the education company? So I think that confuses the issue a little bit for some investors. So we totally agree with you in terms of the direction. So I'm biting my tongue, I can't say way too much on this point.

**Miss Leung:**

Okay, thank you. Bye.

**Simon Leung:**

I think that was the last question. So thank you everybody for calling in. If you have any follow-up questions, do not hesitate to call us. Thank you to all my colleagues especially the one in the US. Goodbye, thank you.