

NetDragon (0777.HK) 2021 Annual Results Conference Call and Webcast

11:00 AM, March 30, 2022 Hong Kong Time
(11:00 PM, March 30, 2022 Eastern Time)

NetDragon's Management Team

Dr. Simon Leung, Group Vice Chairman and Executive Director

Mr. Ben Yam, Group CFO

Mr. Vin Riera, CEO of Promethean

Mr. Lin Chen, Group Senior Vice President

Moderator:

Dear friends. Good morning. Thank you for joining NetDragon Websoft Holdings Limited 2021 annual results presentation.

Our presentation PPT will be broadcast on the live-streaming platform. The PPT is also available for download on our company website at www.nd.com.cn under the investor relations pack in 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.

Now let's pass our time to Dr. Simon Leung to host our presentation today.

Simon Leung:

Well, thank you. Good morning. Welcome to the NetDragon Metaverse. So, I'm kind of referring to the background that I have. The reason I do that is that that's gonna be one of the themes today. So, let's jump to the agenda page. So, I can kind of take you through a rundown of what we're gonna do today, the agenda page, the next one. So, I mean, you guys have seen the press release, I'm sure you have studied the details. So, I'm gonna hit the highlights and I'm gonna let Ben talk about some financials, but more importantly is that kind of recap on our last earning announcement, which is six months ago, we did talk about our shareholder,

enhancement, value enhancement program. I'm happy to say that we have done a lot. We're gonna do more, but Ben's gonna take you through the detail. So, Vin is gonna take us through some of the exciting progress that we have made in our education business and then of course Lin Chen is gonna take you through a lot of the development in gaming, not only in 2021, but also looking forward. Then I'll come back and talk about the Metaverse and why we believe is the right thing to do for us and why we believe is our future, why we believe that a lot of synergies with both our education business and gaming, and then we open it up for Q&A.

Next page. I think the numbers speak louder than themselves. I don't really need to explain it. So, we cap the 7 billion dollars mark in RMB. We grow in all areas, so sounds like a repeated theme, but it's important. I think you want to see a consistent business. We are happy that we have done that.

So next page. Again, I mean, it's actually kind of more the same thing, gaming continues to be our engine to generate cash. So again, Lin Chen will take you through the things that we have done and things we're gonna do forward. Very happy with the progress with our education business, especially overseas under Vin's leadership. And he's gonna talk about it and also give you some examples of the big wins and key wins that we have. I'll come back and really talk about how we see the Metaverse and how we position ourselves. We have a threefold strategy to deal with that. I'll give you a little bit of details and of course Ben's gonna go into a little bit more detail on what we have been doing in terms of value enhancement. So, with that, I am gonna turn it over to Ben, whom you should know very well by now. Ben.

Ben Yam:

Thank you, Simon. Hello everyone. First, I'm gonna go over our financial performance for the year, and then I'll give you all an update on our progress in terms of capital market measures to enhance shareholder value. First, I would like to highlight on this slide that we have achieved five consecutive years of growth in terms of revenue, operating profits and net profits. Our revenue went up by 2.3 times in the past five years. And in terms of our bottom line we are close to double our net profits since we return back to profitability in 2018. And this is achieved on the back of our success in both our gaming business, as well as our education business, as we continue to consistently deliver exceptionally strong performance in these two business lines.

Next page, please. So, to quickly go over our income statement. Our overall revenue growth was 14.6% year over year. As we continue to see upward growth trajectory for our gaming business and also just very strong growth for our education business. Vin is gonna go to the details, but in short, we are continuing to see a very strong business momentum for education business, as we have 32.2% revenue growth for the year which is actually our highest growth in the past four years. And this is achieved on the back of very strong demand momentum for blended learning in K12 classrooms around the world and also Promethean solutions really fit right in, in terms of the technology of choice. And then on the cost side, we also execute our

business with strong cost discipline as our Opex items as a percentage of revenue all decreased year over year as we continue to benefit from operating leverage.

In terms of bottom line, we've delivered in 2021 a 27.4% increase in operating profits, 11.4% increase in net profits and also 12.8% increase in EBITDA line.

Next page please. Onto segmental financials, first on the education business, in addition to our strong top line growth, I also wanted to highlight that we've been able to keep our growth margin stable at 30.8% as we were able to overcome our supply chain issues which has increased our materials and logistic cost in quite a bit and again Vin will go into the details on that. And our core segmental loss also continued to trim down. As we saw a reduction of 28% to 412 million in 2021, as we continue to improve our bottom line, while we continue to invest in our products and our technologies to capitalize on the blended learning opportunity. And then on the gaming business we continue to achieve stable growth in both our top line with 6.1% growth and also our core segmental profits with 7.8% growth as we continue to enhance our Opex structure to streamline our operations.

Next page. And then I'll move on to the next part of the presentation, which is the shareholder value enhancement where I will give a recap and also an update on our capital measures to maximize capital return for our shareholders. First of all, I would like to reiterate our commitment to enhance shareholder value with capital measures to return value back to our shareholders while preserving capital for us to invest in the future. And we've really delivered on this commitment in the past few years by executing a series of capital market measures. As you can see on this slide, for the past five years, we've delivered a cash return in total of HKD1.7 billion via share repurchase as well as our recurring dividends, recurring interim and also final dividends. And then, in February of this year, we paid a special 2021 interim dividends in the amount of USD100 million which is amounted to HKD1.43 per share. And then in August of last year, we also announced a three-year share buyback to repurchase our own share up to USD 300 million. And that is also one of our major initiatives as well. Our net cash position stands at HKD4.8 billion at the end of 2021 which we believe will really put us in a very strong position to support future investments to drive our long-term growth.

Next page, please. So, this chart shows that we've consistently been increasing our cash return to shareholders in the past few years as our annual cash return in terms of recurring dividends and also share buybacks have more than tripled since 2018. And the other thing is that I also would like to update you all that we've been following through on executing the three-year share buyback program that I just talked about. And since the initiation of this program, back in August, up to now, we've bought back a total of 16.2 million shares amounting to around USD38 million.

Next page, please. And this is another chart to illustrate that on a per share basis, our recurring annual dividends have also increased significantly in the past few years from 25 cents in 2018 to 80 cents last year, and then on an overall basis in 2021, our total dividends for the year including the special dividend amounted to HKD2.3 per share. And that actually represents approximately 94% of our total profits attributable to owners for the year. Okay. And with that,

I'm gonna to pass the stage to Vin who is gonna take us through the education business, Vin.

Vin Riera:

Great. Thanks Ben. Good morning, everybody. My name is Vin Riera and I am the CEO of Promethean. You want to go to the next slide please.

So, on the next couple of slides that I'm gonna cover, we're gonna talk about the market growth and the addressable market that we see. This slide does a great job illustrating the growth that we've seen in the market consistently since 2017. You'll see a huge jump in 2020 to 2021. And that's reflective of the amount of funding that came into the market for technologies like ours. Front class technologies, interactive flat panels, lesson delivery software, as schools had to adopt to COVID and, adopted hybrid learning and blended learning solutions. This growth has been in two key areas. It has been in replacement of technologies that were in front of classrooms, either interactive whiteboards or older interactive flat panels, where people replaced their technology with newer technology, and then just sheer growth in new adoption of technology for the classrooms around the globe that do not have the technology. That was an opportunity for us to sell into that.

If we go to the next slide, we'll talk about the addressable market and the market opportunity that we have in front of us. What this slide illustrates is the enormous opportunity, again, that we have in the replacement cycle, and in the new purchases of interactive flat panels, and front of class technologies. If we take a look at the size of the market, and we assume that there's 42 million global classrooms and 82% of those classrooms today are not penetrated, meaning that there is no front of class device in there. You take an ASP of USD2,000. It gives us an immediate addressable market of USD69 billion. So the opportunity that we have in front of us is absolutely enormous. If you take a look at the chart, what you'll see is, if you look at the blue tones, those are adoption rates of either interactive flat panels or interactive whiteboards within those given countries. That represents a replacement market for us. So, if you're seeing adoption in those areas, that doesn't mean by any stretch of the imagination, that those aren't areas that we can continue to win and get new business. That's what we consider to be our replacement market. If you look at the sheer amount of white space, that's the opportunity that we have to enter into classrooms to support front of class technologies with new adoptions. So when we look at this slide, we're looking at an enormous addressable market of \$69 billion. We're looking at a very ample replacement market that's toned with the blue and the white space is just sheer open territory for us. When you think about what we can sell in today, the existing products that we have today, and again, the additional upside that we have by adding new products with our software services, there's a lot of green space in the future for us and ample opportunity for us to continue to grow.

If we go to the next slide, one of the things I've spoken consistently about is the importance of remaining or keeping a market leadership position in the largest market around the globe and making sure that we have solid footprints and solid relationships in those markets. I'm gonna

highlight five markets here and just speak very quickly to some of the growth that we've seen and some of the key tenets to our success. The US market, again, we are number one in the US market with 28.7% overall share. The US market grew 71% in 2021 and Promethean grew 84%. So, we outpaced market growth in the market. I was very pleased to see that. We saw a huge adoption of our products being used for blended learning and remote instruction. We also saw teachers, we saw school districts adopting our products that might have bought products a few years ago, but that technology was no longer current technology that the students were using and teachers were using. So that's a consistent story that we first saw in the US, and we were able to capitalize it. In the UK, we are number one in the market at 23.1% share. And this was our fifth consecutive year of being number one in the market. We had strong growth of 42% in that market. An interesting trend that we're seeing in that market is we're seeing interests in adopting more than one interactive panel per classroom. So, we see this market growing not only in the replacement market, but additionally, additional opportunity to sell new equipment into the classroom. Within Germany, again, number one market, you probably don't remember from one of the previous slides, but German market penetration is only about 40%, which means only 40% of the classrooms in Germany have an interactive flat panel in the classroom. That means that there's significant opportunity to continue to grow in Germany. We have 23% of the market. We're number one, it's now our largest country in EMEA outpaced the UK from a market growth perspective. And there continues to be significant funding in that market, which is gonna allow us to continue to expand and grow. And then France, interesting market, in that we're number one, we have 23.8% share. It's the fastest growing market with 31% CAGR on market volume from 2020 to 2023 while it's the fourth largest market in EMEA. The trend in that market is a shift to interactive flat panels. It's primarily been an interactive whiteboard/projector market that represents a huge opportunity for us because the replacement market is even larger for us in that market. And then I'll just call out Iberia, we're number two in that market. We have a very balanced growth strategy, with 28% year over year revenue growth. And in smaller markets and I'm just gonna call out Portugal here. There're other ones that we have situations like this too. We dominate in some of those markets, in Portugal as an example, we have 70 plus percent market share. So pretty large market across the globe. And these top five countries represent 75% of our 2021 revenue.

Next slide please. 2021 was an interesting year in regards to supply chain and logistics. Ben touched on that and I just wanna give a little more insights into it. What we started off doing in 2021 had to be adjusted pretty quickly as market conditions continue to deteriorate. And we quickly put in place plans to control our ASP, control our freight cost per panel, and then manage our gross margins. And it was something that we worked on consistently throughout the year. Relative to ASP, we're able to increase our ASP 5.6% year over year to \$2,287 a panel. That took a lot of effort. There was a lot of different initiatives in order to do that because we didn't want to be inconsistent with our channel, our customers and our pricing. And we're very happy with that result. On a freight cost per panel, this was another significant companywide initiative that was focused on throughout the entire year. The market for freight increased 6.8 (times). Our freight costs only increased by 2.8 (times). So, we outpaced the market by controlling costs

on freight. And then overall gross margin was relatively stable. Given the challenges that we had in the market last year, gross margin was 32.8% versus 33.8% in 2020. So, we're able to control a lot of variables in the business that change constantly throughout the year.

Next slide please. So, the next few slides are going to talk about customer wins, and there's going to be some key takeaways on each one of these slides. Relative to this slide, there's a lot of different names on here and there's a lot of different examples, but there's three takeaways that I want to give. The first one is we win large districts, and this is consistent if it's large and it's complex, it's something that we do really well at. Three examples here are New York Department of Education, Miami and Chicago public schools. The second thing I wanna point out is we win in mid-size districts and small districts. I didn't put small districts up here, but we do win in an awful lot of mid-size and small districts. So, we're adept at winning in large districts. We're adept at winning in small and mid-size districts. And the other thing I wanna point out is we're adept at winning in departments of education. And two examples are New South Wales Department of Education and Puerto Rico Department of Education. The key takeaway here is within the K-12 market, we compete and win. And it's not an area that we're trying to find a niche to improve in. It's an area that we're trying to find a way to grow holistically and continue to grow holistically.

If we go to the next slide, this is the first of two examples. I'm often asked why we win. And aside from a very strong brand, aside from a loyal customer base, aside from our delivery software reliability, over-the-air updates for our products, I just wanted to pull out two examples and share with everybody why we won. The first one is Lee County School District in the US. Really the winning factors for us is what they needed more than anything was comprehensive training and a solid support and a professional development plan with the panel and with the lesson delivery software. This is a market that will pay for value and they will pay for additional services and support. And what we did is we partnered with the district to understand what they were looking to accomplish, the timeline that they're looking to accomplish their goals, and put a solution together that met the needs of more than just providing a front of class display with an award-winning ActivPanel. It made the transition from the incumbent super easy. That's always a challenge for schools that are leaving an incumbent to a new one and we made it as easy as possible for them. The next example is similar, but brings into a little bit more texture. What Cidari Multi Academy Trust in the UK needed was, what was most important to them, was seamless integration, with their existing edtech across all environments. And it had to be compatible with Google software and devices and they needed to have training on it. And one of the things that we were able to do is when we went in there and listened to what they wanted to accomplish, when we work closely with the channel partners and try to roll this out, again, we're able to put together a comprehensive solution for them that helped them feel very confident about the success of the rollout and making sure that their end users, ultimately the teachers, were able to operate seamlessly in the classroom. So just two more overall examples on why we win and how oftentimes sometimes just listening to what the customer's looking for and taking our experiences, and helping them implement what they want to implement that

feels very custom to them as a winning solution.

If we go to the next slide, we won awards in 2021 and that was great because 2021 we continued to have V7 in the market. We made multiple updates and upgrades to that product. So, if you had bought V7 early on in lifespan, you got to see some improvements over the life of that product, but we received awards from Tech and Learning, from Bett, from the AV Awards and EDTECH. This was both for ActivPanel and for our lesson delivery software. So still very well recognized across the market as a market leader and a thought leader in this space.

And then the final slide, I'm going to talk about what's happening in our MOE business. So, MOE is our ministry of education business. We also sometimes refer to it as countrywide rollouts. There are three examples that I wanna talk about today. The first one we've heard a lot about consistently on every single call, it's Egypt. We have a very strategic relationship with Egypt. We spent a lot of time with Egypt understanding what they're looking to try to do and try to be the best partner if possible, to help them accomplish their education goals. And just very recently, we signed a definitive contract with Egypt for 94,000 Promethean panels. We're thrilled with that. We're thrilled with that business commitment that we have to them and they have to us. We're working with them, expect an Edmodo solution in 2022. And we're also looking at expanding new initiatives that include content and Metaverse opportunity. And Simon's going to talk a little bit about the Metaverse after me today.

And then in Thailand, we were able to get a pilot of three regions completed, and it had quantifiable increase in learning outcomes. So really successful pilot there. And we're moving toward a paid pilot and a solution for them that we could scale nationwide in 2022. And then, the last MOE opportunity that I'm going to share with you today is in Ghana. In September of 2021, we signed an MOU with Ghana to develop a sustainable nationwide blended learning platform for the 9.3 million K12 students. So that's a project that's underway and we're engaged with and we're excited to be able to share updates with you. That's it from the education business. I'm now going to hand it off.

Lin Chen: (In Mandarin)

Hello everyone. I'm Lin Chen, and I am pleased to brief you on our gaming results for 2021. As you can see, our gaming business delivered solid performance this year, which is a testament to our success in executing a sustainable development strategy. Our continuous investment over the past few years in IPs and our specialized genres, as well as overseas games, have provided us fruitful returns.

You can see that revenue of our two flagship IPs, *Eudemons* and *Conquer*, both hit new highs in 2021, while overseas revenue also recorded year-on-year growth. At the same time, we can see a healthy and stable revenue growth trend of our games, as resulting from the sustainable growth of paying accounts (referring to APA) and a more healthy payment (referring to ARPPU).

Our game revenue mainly comes from two platforms, PC and mobile. As you may know, PC games market is relatively stable with high entry barrier. Our PC games revenue outperformed the industry average, which proved that our ongoing investment in *Eudemons*, *Conquer* and *Heroes Evolved* IPs is continuing to pay off. As PC games market will be relatively stable, I believe our ongoing investment in IPs will continue to drive PC games revenue growth. Revenue of our existing mobile games continued to grow, while the launch of new mobile game also contributed to the revenue growth. Therefore, both PC and mobile games recorded revenue growth, which is one of our significant achievements this year.

Let me help you with a recap of our core game IPs. We've been continuously investing heavily in MMORPG genre, in which we have *Eudemons* and *Conquer* IPs. As you know, MMO is a category with a longer lifespan and higher user loyalty. On top of this, we also have high DAU MOBA games, such as *Heroes Evolved* IP. At the same time, we continued to explore new game genres and new IPs, such as *Under Oath*, an ACGN themed CCG game launched in 2021.

Next, I will go through the overall results of *Eudemons* IP. As you can see, revenue of *Eudemons* IP has grown sustainably over the past seven years due to several reasons. The first reason is that MMORPG category has higher user loyalty. Our continuous investment in *Eudemons* IP has achieved significant return for us in the long run. We have two major drivers for our revenue growth. First one is the stable and continuous growth of our active users; the second is the expansion of our monetization capacity driven by our frequent and consistent content update. We are also pleased to see the growth in both active users and payment last year, which also contributed to the continued growth of *Eudemons* IP in the past year.

We have always attached great importance to our capability in consistently delivering high quality content, demonstrated by our efforts in launching massive expansion packs for users each year. For PC games, our two major expansion packs launched last year achieved satisfactory results in terms of increasing user loyalty and attracting the return of old users, leading to *Eudemons Online*'s stable ecosystem and continuous user payment. As for mobile games, we have launched four expansion packs for *Eudemons Pocket Version*, as the demand of content update in mobile games is higher than PC games. We have significantly reduced user acquisition cost through high quality content update as well as content marketing initiatives. This helped us continue to bring new user traffic and stabilize the mobile game user ecosystem, leading to satisfactory results last year.

In fact, we have long been working on IP crossover and content marketing and have accumulated massive successful experience. As we learn about the user preference, we

continue to make successful attempts including IP crossover, continuous content marketing and brand building every year to ensure the activeness of our user community, and our efforts continue to pay off in terms of both new users and user payment.

Next, I think content plays a significant role in gaming industry and we continued to look for content opportunities and development trends for *Eudemons* IP. From the current situation, we think the trend of “Guo Chao” and its crossover with *Eudemons* is a very good example. For the two expansion packs in the first and second half of last year, we continued to focus on the crossover between *Eudemons* IP and Shan Hai Jing. The combination of the two themes created an excellent content with wide recognition from users. In the future, we will continue to invest in and work on content design and production.

As you can see, the Nian Beast feature is an important gameplay in *Eudemons* games, and also an important mechanism for monetization. We can see the trend from *Eudemons* IP that users apparently become more willing to pay for high-quality content. With our high-quality content production and design, our revenue from Year of Tiger Nian Beast exceeded RMB100 million for the first time, which proved that our continued investment in content development and profound insights of monetizable content have generated significant returns. We believe that in the future, we will be able to drive our revenue growth with high-quality content, while content monetization remains as an important factor to maintain the healthy growth of the MMO game community.

Last year, we started to make progress in expanding the *Eudemons* IP, especially in our motion comic series. Our motion comic series made its debut on Kuaishou.com in November last year, which received wide recognition from younger audience. 2022 is another important year as we will continue to promote our IP content in stage plays, mini plays and LARP (“Live Action Role Playing”) games. I believe these younger audience targeting IP contents in various innovative formats which the younger generation embraces, will continue to expand the fan base of *Eudemons* IP, as well as to build a good image for *Eudemons* IP among young people, promoting the sustainable and healthy development of *Eudemons* IP.

Next is *Conquer* IP. We will continue to invest in the MMO category by stable content production in our own pace. At the same time, *Conquer* IP recorded significant overseas growth last year. We have expanded into several new countries including the Philippines and United States, and explored successful marketing strategies. This year, we will execute these proven strategies in more countries. As *Conquer* is more focused on PC version, it took more time to establish channels than mobile games, while it can provide relatively longer term returns. The high entry barrier is also key to ensuring the long-term profitability of our IP.

Next, let me introduce our ACGN IP *Under Oath*. It marked our significant new attempt in terms of expanding into new game genre, younger user base and innovative gameplay. The result turned out to be satisfactory and met our expectation despite the challenges during the early period of the open-beta test. In terms of user acceptance, this IP has achieved more than one million MAU with a highlight of over 55% of next day retention rate, which represented an outstanding performance in the industry. The art theme and gameplay innovation of this new game, as well as our marketing initiatives for ACGN are widely recognized by new users. In 2022, our focus for this IP will be continuous investment in content and launch of overseas versions.

We believe the theme and category of *Under Oath* IP is very suitable for globalization. We have communicated with some overseas publishers and they are quite confident that our game will have great potentials in overseas markets. We will finalize the partnership agreement in the near future. We also expect this game to be launched in overseas market in 2022 and contribute to our revenue growth.

Overall speaking, we expect sustainable and steady growth from our MMO IPs in 2022. Meanwhile, launch of *Under Oath* overseas version and overseas expansion of *Conquer* IP, as well as launch of new games including *Eudemons Mobile 2*, will drive our revenue growth in 2022. At the same time, we will proactively capture the opportunities in Metaverse, open-world and blockchain games by capitalizing these new growth momentums. I believe our games can achieve healthy development in 2022 and the next few years.

Simon Leung:

It's actually very timely that Lin Chen ended up talking about the Metaverse. So, I'm going to come back and really at a high level, tell everybody what we are doing, what we have been doing and what we are going to be doing in the area of Metaverse. First of all, we believe that's really in our wheelhouse. We see it as a big MMORPG game, with a lot of new technology and content into it. And that's our DNA. We've been doing this all our life. We're going to continue to do it. So, if I may, I will kind of put our initiative into three different buckets. The first one is actually Lin Chen alluded to is actually blockchain game. So, I'll talk specifically about a game that we have launched kind of, and then our plan about it, by the way, that's not the only title that we believe that we can take advantage of blockchain, the technology and the gameplay. So that's why I put the two kinds of boxes in one bucket, which is blockchain games. We are very excited about it. We believe we'll be successful. New verticals are actually I'll probably describe it as adjacent verticals that are very close to what we do. The first one we are looking at definitely is what we call EduMetaverse. So, we do believe the concept of social learning will be coming and will be here to stay. So, with the big user base that we have, whether it's through Promethean or Edmodo, we believe we are in a prime position to take advantage of that. So, we are in more than just planning stage. We have a lot of the initiative going on right there, but

I can't give you the detail. But, for sure, in our next earning announcement, it will give you a lot more details. Because the whole Metaverse area around blockchain is a new area, is moving really really fast. So, we do believe that we need to stay in the forefront of the technology, the business, the business model and all the innovation. And the fact that we have quite a bit of cash on our hand, we want to use it in the best way that we can. So, in addition to enhancing shareholder value, we decided to take a more, maybe like a better term, aggressive investment approach in the whole blockchain area. So, we are going to be investing in any of this vehicle that will allow us to number one, look at the deals and then we can have good returns. Plus, we can really be in the forefront of all the new innovations whether it's technology or business model. The other one is actually we'll be doing some partnerships. By the way, our investments not only just on software, it could be hardware that enhance our experience in the Metaverse. The other one is actually really partnership and people that we can work with and get us into and expand into the Metaverse universe much quicker. So that's really the highlight. We have started doing that in the second half of 2021. We're going to speed it up in 2022, so I can guarantee you you'll be hearing from us very soon. You don't have to wait until the next earning announcement.

So, next page, I'm going to give you a little bit more specific on the game that we have started to do. If you remember, towards the end of last year, we have launched an NFT project with Neopets. Just to remind everybody, Neopets is a well-known game to the gaming community. It's all about virtual pets. It's been around for many years and has a user base of 150 million players that they have played the game. We are talking about a million MAU, so we are taking that into the crypto area because if you look at the game itself, it's actually the battling, raising the pets, dressing them up, it actually got all the elements in a blockchain game. The thing that would differentiate us from all the other games are number one, (it) is a first major IP that is actually going crypto or going blockchain, I should say, it's a proven gameplay, a proven community. What we are gonna to be doing is actually "play-and-earn", is not "play-to-earn". So, I think a lot of people are very familiar with one of the games, which is around pets, but that's a "play-to-earn" game. So, they appeal to a very different audience base. So, we decide to stay with free-to-play, premium and also "play-and-earn", so we can appeal to a much wider audience in gamers. So, we have the whole timeline developed, we announced the game, we are going to be reviewing more of our progress, actually this week, to the community. And then also leading up to an alpha launch, I think sometime in June or July timeframe in the Q2 and beginning of Q3 timeframe. Okay. With that, I'm going to turn my attention into the outlook for 2022.

Actually, I'm going to be very brief and let's go to the next page. It's actually both Vin and Lin Chen talked about our future in our business. So, we are going to have a very balanced growth strategy on gaming, both domestic and overseas, and also on the content. And really, I mean, Neopets is not going to be the only blockchain game that we'll be doing. In terms of education, we are going to have two areas that we'll be very focusing on. One is really taking advantage

of the tailwind that we have in terms of blended learning. I'm not going to repeat what Vin has told you. We just have to reiterate we are confident in 2022 and onwards. The way we are doing it is actually we are getting a lot of sockets if you will get into all the classrooms. So, on top of that, then we can deploy software and content over our learning solution. So that lead very nicely into the next point. A lot of people think Promethean is a hardware sale, but if you gotta listen to Vin carefully, actually one of the big differentiations for us is our lesson delivery software. So, on top of that, we can start monetizing. So that's our whole game plan all along. Last but not least is the previous two slides that I talked about. Not only we will continue our Metaverse initiatives, but we are going to ramp it up. We are going to be quite aggressive, but of course, in a prudent way to take us into a new growth area. With that, thank you so much for the patience. So, I'm going to open it up for our Q&A. Thank you.

Moderator:

Thank you, Dr. Leung and all the management. Now it's time for our Q&A session. You're welcome to raise questions in two ways. First, if you would like to raise questions through the teleconferencing system, you may press star one on your phone keypad and our operator will put you through. Second, if you would like to raise questions via our webcast platform, please click the question mark on the screen and type your question in the Q&A box.

We welcome questions in both English and Chinese.

(Below In Mandarin)

Let's welcome our first question.

Our first question comes from BOCOM's Mengqi. We have seen significant decrease in the loss of education business. Is there a timetable for breakeven of education business? The second question is: How should we look at the gaming business growth in 2022? What is the plan of new game releases, and growth prospect for PC game?

Simon Leung:

Okay, let me take the first and either Ben or Lin Chen can do the second one.

(Below In Mandarin)

We keep talking about our education business, and we believe the loss will be narrowed as we've been making good progress. We're still balancing our investments and profits. We've been making very good progress especially in Promethean, which is expected to be profitable. However, we've also been investing in areas in education and metaverse. Ultimately our goal is to be profitable. It's only a matter of time. We have a timetable to follow, but the market - including the Metaverse market - is growing very quickly and we need to balance. At the moment, we're still headed for profitability. Secondly, our loss will definitely narrow, although we are unfortunately unable to reveal our timetable for that right now.

As for the gaming business, Lin Chen will answer that.

Lin Chen: (In Mandarin)

I will first answer the question from the operational angle. First of all, the PC gaming market is relatively stable. We haven't seen any new blockbuster releases (planned across the industry) in 2022 yet. We are confident that our PC game revenue will maintain consistent growth as we continue to update new content.

In the mobile gaming aspect, there are a few drivers to look into this year. First of all, the release of *Under Oath* in overseas market will definitely be a significant driver. We expect its overseas revenue will exceed domestic revenue. Secondly, we expect to launch a new game *Eudemons Mobile 2* under our flagship IP this year, which will boost our future gaming revenue as well.

Another driver is blockchain games in overseas market as mentioned by Simon earlier. These games are not subject to license approval and will expand our mobile game revenue as well. Perhaps Ben would like to add a few comments about our forecast in this area.

Ben Yam: (In Mandarin)

Thank you, Lin Chen. I think you've covered it quite well. To be more specific, we're very confident that our PC game revenue growth in 2022 will be in line with market growth. As Lin Chen mentioned just now, we expect to launch the overseas version of *Under Oath* in the second half of this year, which will bring us a new driver. Therefore, we're quite confident that we'll continue to have consistent and stable growth in both our top line and bottom line for the gaming business this year.

Simon Leung: (In Mandarin)

I'd like to talk more about blockchain games. We will be making progress in 2022 in this area, but frankly speaking I'm not sure how it's going to impact our P&L yet. Maybe Ben could give some color. We're still analyzing how it's going to impact our P&L from the accounting perspective..

Ben Yam: (In Mandarin)

I can add to the blockchain related matters. We intend to launch new blockchain games under Neopets as Simon mentioned just now. As everyone is probably aware, Metaverse games are in essence decentralized ecosystems, and that's the direction we're heading. When designing the game, the company is more focused on token value in terms of economics, which is something quite novel in terms of accounting. We're confident that the impact will become clearer as we get closer to the game's launch in the second half of this year.

Simon Leung: (In Mandarin)

Ben, can you briefly talk about our cryptocurrency investments and why we've not been able to

show this on our P&L yet even though we've actually made some money?

Ben Yam: (In Mandarin)

Yes, correct. In terms of cash management, we have ample amount of net cash. We invested in certain amount of Ethereum and we've made quite a bit of profit in market value. However, due to accounting standards, we've not been able to mark up the fair value increment of Ethereum, although we know it has increased by quite a bit, so you could say it's one of the unrealized gains that isn't shown on the P&L.

Simon Leung: (In Mandarin)

Let me go into more details here. We're very confident in our blockchain games, but in the short-term, you may not see much impact on the P&L as the accounting (community) is still discussing how to properly deal with tokens.

Moderator:

Thank you. Our next question comes from CICC, Kai.

(Below In Mandarin)

What would be the typical user profile of *Eudemons*? What is the monetization potential of Southeast Asian gamers? Does the pandemic situation overseas has any impact on the demand for Net Dragon's education products or the delivery schedule?

Simon Leung:

Lin Chen, please answer the question about *Eudemons* first. Vin, actually the next question is for you, so the question is does the COVID situation affect our education business, I think the answer is yes but I am sure you have a good answer on that one. Okay, Lin Chen is going to answer the first question.

Lin Chen: (In Mandarin)

To answer your first question about the typical user and user profile of *Eudemons*, it does have a relatively higher percentage of users in second- and third-tier cities than the market average. The characteristics of *Eudemons* users are that, first of all, they are more loyal to the IP and have higher stickiness. Secondly, in terms of payment, there is a group of key loyal players with relatively strong capacity to pay. Meanwhile, I do believe from the perspective of user age group, that it is more favorable than what we might have expected. The user base is consisted mainly by adults aged 18 or above, while minors take a very, very small portion of the user base of *Eudemon* IP. So, from the user base composition point of view, *Eudemons* IP is rather healthy. That's why we say our the user profile can support our long-term revenue growth with its stability and capacity to pay.

The second question is about the potential of Southeast Asian users. Personally I do believe *Under Oath* will do pretty well in Southeast Asia. Another reason would be that Southeast Asian

users are selective when it comes to the gaming themes. It's clear that themes doing well in Europe and US are slightly different than (trending) themes in Southeast Asia. From a market perspective, the potential and spending power of Southeast Asian users are growing gradually. Because, its GDP is still growing at a relatively high speed according to market analysis. We are optimistic about the potential of the market and its users. Thank you!

Simon Leung:

Vin, over to you.

Vin Riera:

So COVID did have an impact on our education business. We first saw it in 2020 when schools started to go remote and I think the long-term effect was most interesting in that the funding source that were put in place to allow teachers to teach remotely have carried forward. And students have gotten new devices, teachers have gotten new devices, and they invested heavily in different edtech solutions, software solutions. It's become mainstream for them. And what that's done is, it's kept them continuing to purchase the latest technology and continuing to upgrade their technology. And that's not a trend that I see changing in the next few years.

Simon Leung: (In Mandarin)

The impact is definitely there, but in a good way instead of bad, because we have been promoting the concept of blended learning all along, meaning that you can learn anytime anywhere, whether you are at home, in a classroom, or on mobile. It's indeed something we've been promoting. The pandemic has accelerated the trend. It is an important reason for our record high growth in both 2021 and 2020, especially in our overseas education business. Let me add that, of course, the pandemic did pose some challenges for us, particularly for our supply chain, but we were quite well prepared and our team was experienced enough to deal with some of them. So, the reasons why we achieved higher growth than some other companies are that, first and foremost, our sales team and the customer relationship are spectacular. Some of the names you may not be too familiar, but a lot of them are large (school) districts in the United States. Therefore, we grow at a quicker pace. Our large clients in Miami, Florida, in New York and in Texas are some of the examples. That's why we are confident to see significant growth in the next two to three years. On the other hand, we also have some large projects on hand. We have a three-year contract with Egypt for nearly 100,000 interactive panels. It's also one of our highlights this year. Thank you.

Moderator:

Thanks for the answer.

Before next question, let me remind you again. If you would like to raise your questions through the teleconferencing system, you may press star one on your phone keypad, and our operator will put you through.

Simon Leung: (In Mandarin)

It seems that Ben encountered some computer glitch, so there is no image for him now, but he can hear us I believe.

Ben Yam: (In Mandarin)

Yes, I am here.

Moderator: (In Mandarin)

Thank you.

Simon Leung: (In Mandarin)

Perhaps Ben needs a laptop upgrade.

Ben Yam: (In Mandarin)

Yes. Sorry about that.

Moderator: (In Mandarin)

No worries, thank you Ben. Questions from GF Securities analyst: We see that the company has delivered excellent results in both gaming and education. Could you share the revenue and profit growth outlook for education and gaming businesses in 2022? The second question, what are the pipeline games at the moment and their performance expectations? The third question, what are the biggest growth drivers for the education business at present? The fourth question is...

A little bit long, maybe you can answer the first three questions, and then I read out the remaining two? Since there are two other questions followed.

Simon Leung: (In Mandarin)

Would you please limit the total questions you want to raise, perhaps 2 at maximum, so others can also have a chance to communicate?

I don't even remember all those questions.

Lin Chen, please answer the gaming question first, I will then ask Vin to answer the education one, and Ben for the outlook.

Lin Chen: (In Mandarin)

Let me first answer the gaming questions. In terms of revenue in 2022, Ben and I have already briefed on that. About the games pipeline, I would like to add that we currently put our focus on MMO, MOBA and the newly expanded CCG genres. We have *Eudemons Mobile 2* and the next PC and mobile version of *Eudemons* under our *Eudemons* IP in our pipeline. In terms of MOBA, we have already commenced the development of the next generation MOBA game -

Heroes Evolved 2. Our pipeline is more robust in CCG games category, including innovative “Match-3 plus” games and idle games to be launched in the next two years. I do believe we will continue to launch new games with focus on our current genres in next year and the year after that which will bring us new achievements.

Simon Leung:

Remind me what the question is related to education.

Moderator:

The main growth driver for the education business.

Simon Leung:

I thought Vin has answered it. Vin, did you get the question? The main driving force for our growth, I thought you answered the question previously, but go ahead and repeat.

Vin Riera:

I can touch. Yeah, sure. Let me touch on it really quick. One of the impacts of the pandemic was that a significant amount of money came into schools to upgrade their technology. And we've seen traditional growth in the market, going back to 2017 at about eight and a half percent a year. In 2021, we saw 23% growth in the market. And a lot of that has to do with an increase in funding. So, I think the funding increases the adoption of new technology, faster adoption of new technology, faster replacement cycles, faster adoption of front of class displays in markets that haven't traditionally had. That is what's fueling that. It's one of those things where they started buying it. And then once they started buying and incorporating more technology in their classrooms, everything has to be upgraded. And we have benefited from that and we will continue to benefit from that.

Simon Leung:

I think Vin the other thing you guys have done is that you also optimize our revenue by selling our higher kind of model. You may want to touch on that a little bit too.

Vin Riera:

Yeah, that's a good point. That's a great point, Simon. One of the things that we've seen is with the applications on how the products are being used in the classroom. We have two levels of panels. We have a great panel that people can buy and use. And then we have one with additional storage, additional memory, additional functionality. And what we found is we saw a big shift with customers that wanted the higher level of performance, that wanted the additional storage, because the use case had changed. And especially if they were attaching a camera to it, or that there was more interaction that the teacher was having and the students were having with their one-to-one devices with the panel. Our premium product was something that met their needs a heck of a lot better. And it was something that we saw the market drawn to and we just worked to fulfill that demand.

Simon Leung:

Well, thank you Vin. Go ahead.

Moderator: (In Mandarin)

An additional question, what will be the expectation for the revenue and profit growth of both education and gaming businesses in 2022?

Simon Leung:

We don't give forecast.

Moderator: (In Mandarin)

Sure, no problem.

Before next question, I will remind all investors again. If you would like to raise questions through the teleconferencing system, you may press star one on your phone keypad, and our operator will put you through.

Our next question is also from (an) analyst. Could you advise on the current outlook for the domestic education business? Does the regulation have any impact on the domestic business? Secondly, please tell us about the investment status and forecast for blockchain projects.

Simon Leung: (In Mandarin)

Firstly, on the domestic regulation, as our service does not involve after-school tutoring, the impact is minimal. Our investment is in 101PPT and cooperation with various local governments, whether to-C or to-G. That's why I just talked about balancing investment and profit, as we are still at the investment stage for domestic education. We are building our user base and focusing on cooperating with the government, while also doing to-C projects, 101PPT in particular.

For blockchain, I have already mentioned that we will do quite a lot. Currently I will not comment on the exact amount we are investing, but you will soon learn about the estimated investment for each of our projects. We believe the future of gaming and education definitely lies in blockchain. So, for us, it is very reasonable to invest in blockchain which will benefit our future development.

We will be investing in the Metaverse for most of 2022. We already have customers. In Egypt, practically all of its students are in our Edmodo platform. Once we connect the Edmodo platform and our Metaverse, we will have quite a large Metaverse ready. And our Metaverse will also incorporate some features from the projects we have invested and will invest in near future. On gaming, we have also seen progress. We will continue to develop Neopets metaverse game, and Lin Chen have also mentioned that we are looking for other IPs in blockchain. Ben also talked about it just now, that right now we feel it's not quite clear how our investments will be

reflected in our P&L, as the accounting standards are still lagging behind. Does Ben have some more comment?

Ben Yam: (In Mandarin)

I just briefly shared what we think about accounting. One thing worth mentioning is that, I think all of us can see the valuation level and equity financing scale of the blockchain games in the market. So, I think that regardless of what the accounting standards will eventually look like, as long as the games are successful, which we are very confident about, the economics and value will be reflected in the NetDragon listed company.

Moderator:

Thank you, Dr. Leung. Thank you, Ben. Due to the time limit, we would like to welcome our last question.

Our last question comes from Jeff. It's very impressive performance on Promethean in 2021, especially on the share gain and the supply chain issue mitigations. There are three questions on Promethean. What is your expectation on inflation this year and what will be the impact on its gross profit margin? The second one is, can you talk about our roadmap on software and expectation on monetization potential? And the third would be, what is your visibility on product demand this year in our core markets? Thank you.

Simon Leung:

Okay. Let's go with my man Vin.

Vin Riera:

Okay. So, I'll do this without giving any guidance. So, we have seen inflation impact in 2021. As we take a look at 2022, we're going to take the best practices we have in 2021 and bring it forward in 2022. We can behave differently to mitigate how we buy and when we buy and when we source our different components. So, there's a tremendous amount of things that we can actually do that can impact what we're paying and ways to control our costs. That being said, we can't control fuel prices. We can't control some container prices. We're going to continue to manage that very very tightly, but just like we did in 2021, I don't see it being any worse in 2022. And we're able to manage through that.

From a roadmap standpoint, there are some things that you're going to hear about, but you're not going to hear about them today. You're going to see some releases that will come out at the end of Q2 and into Q3 so you'll hear in the August earnings call. We have had great success with our ActivPanel V7 product that we launched in 2019 with multiple upgrades. That continues to have incredibly strong demand because we've been able to keep that product. We've been able to do upgrades, over-the-air upgrades and software releases on that product that have

really enhanced the use case. We are excited that there are some announcements that we'll have in the back half of this year on our hardware offering. What we want to do is make sure that we're fulfilling the demand in the market today with the product that customers want, and then introducing new things as far as that goes. Relative to software investments, we've got incubated teams working on software applications for the product, not only in the panel, but in closely adjacent markets. What we're looking for are experiences that enhance the use case for the teacher. And again, I think I'll be prepared to talk about those, not on this earnings call, but most likely on the next earnings call. So, you'll have to wait for that. But I give you a little, you can read through the lines and pick up a little bit on some of the things that we're working on. As far as visibility for this year, I'm going to pull this directly out of FutureSource which is a third party that reports on the growth in this market. They see growth in the education market in 2022 and 2023. They see growth in other markets coming up. I see long-term opportunity in this market. I think I had my second slide that I presented today and that's what I'd probably point you back to. It showed the adoption of interactive flat panels, interactive whiteboards, and then the white space in the market. And the total addressable market size of USD69 billion. I think I would steer you to reinforce my confidence in the visibility that we've got opportunity. We continue to have opportunity in front of us.

Simon Leung:

Yeah. So let me echo that. We are very confident on 2022. So just for you to know, I talked to Vin a lot, but we all talk about our vision for the next few years, rather than day to day. So, they give you a little bit of like, reading between the line of our confidence level. One I have to really give Vin and this team a lot of credit is because they're generating positive cashflow, net positive cashflow. So, we can do a lot of things other competitors cannot do. I mean, he casually mentioned about buying at the right time and all that stuff, but that's very important to maintain number one, the supply; and number two, we can maximize our margin.

So, it's actually, as far as I'm concerned, Promethean is actually we have all cylinders going, the market is with us. We have a great operation team. We have a great go-to-market team and we have a strong, strong leadership up on top. So, longwinded way to say we are very confident in 2022. The thing he was talking in call a little bit is actually is a lot of exciting services, SaaS services is actually being in the works right now. So, it's actually, that's the kind of the topic that Vin and I talk about rather than the day to day, whether you're going to make the number this quarter type thing. So, okay. I think that's a very good question.

Moderator:

Thank you so much. Thank you, Dr. Leung. Thank you, Ben, Lin Chen and thanks Vin. And this successfully concludes our presentation today. Once again, I would like to thank you all for joining us. If you would like to communicate with the management further, please contact us for one-on-one meeting arrangement. Thank you. And we wish you all have a great day.