NetDragon (0777.HK) 2024 Annual Results Presentation

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NetDragon's Management Team

Dr. Simon Leung, Group Vice Chairman and Executive Director

Mr. Wood Lau, Group Interim CFO

Mr. Lin Chen, Group Senior Vice President

MC:

Dear friends, good morning! Thank you for joining NetDragon Websoft Holdings Limited for our 2024 Annual Results Presentation.

The presentation will be broadcasted on Roadshow China, Futu and Wind platform. The reported PPTs are available for download at our company website at ir.netdragon.com under the Webcast, News and Events tab.

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. Wood Lau, Group Interim CFO.

Mr. Lin Chen, Group Senior Vice President.

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

Simon:

Okay, thank you. It's that time of the year again. Thank you for joining our call wherever you are. So, good morning, good evening, good afternoon, and all that.

Actually, what we're gonna do today is actually not only taking you through what we have done in 2024, but also look forward to 2025. On that, I think there are some exciting strategies that we have.

You have read our press release. And throughout this call, you will hear a lot about how we can be embracing AI as our future, which is actually the right thing to do. I think all along we've been looking at AI more from a supportive kind of perspective, i.e. helping us to, maybe cut costs, manage our business a little bit better. But we have decided last year that we're going to be all-in. So we talk about how we can help managing our costs, and at the same time, creating products around the world that can help us to grow in the future.

This not only applies to our core businesses, gaming and education. We're gonna make an announcement earlier on today on one of the very exciting venture that we're gonna have is all around AI with our own IP.

With that, I'm gonna go through the quick highlight of our two businesses. One is gaming, the other one is education.

On gaming, I said it many times, we will be doing AI in gaming. Actually, if I can look over to education, to AI and education at the same time. So not only we are using it to reduce costs in the gaming side, in both development and also creating great graphics. What we also gonna do is actually really focusing on extending our life, which is our evergreen IP *Eudemons*, which Lin Chen is gonna take us through in more detail.

On the education side, unfortunately, we are facing some headwind, both in the U.S. and in Europe, for many different reasons. By the way, you know those are our two strongest markets for education.

U.S. is just a lot of things: inflation, that's been bothering us for the last two years; the uncertainty of the budget allocation, because President Trump wants to disband the Department of Education, so there's a lot that's unknown. The good news is that money is actually still there. The question is actually how it's gonna be passed on to the state and then subsequently to the district.

Same thing applied to Europe, with a war going on in Ukraine and Russia, a lot of elections going on, for example, like in Germany. The good news is actually they formed a government and they have a big budget for education, and Germany is our number one market in Europe. So that's light at the end of the tunnel. So we do expect continued headwind in 2025 and we do expect a recovery in 2026.

I'm sorry to be a little bit long winded on those subjects. But I think it's key for you to understand.

One really exciting aspect about our product is that we launched ActivPanel 10, which is we call AP10, which is a modular architecture. Actually, we took the computing device out of the screen and that allow us to be very flexible in terms of how we configure the product. We can go with Android, we can go with Chrome, Windows, and even Mac. So it's actually depending on the customers requirement.

At the same time, we have a device that we can deploy a lot more services on, which is actually the thing we call CaaS (Classroom as a Service), for the last few years and we can continue to take advantage of that.

Of course, AI and education. That's also the services that will go into that box. So, very exciting stuff.

At the same time, because of the headwind, we tried to manage our P&L and also our balance sheet. So we have done a bunch of work and you read the detail. I mean we're gonna be very prudent in terms of how we manage our balance sheet.

Ok, I'm gonna talk a little bit more about 2025 later on. I'm gonna stop right now and turn this over to Wood, our new interim CFO.

Wood:

Thank you, Simon. Good morning! I'm going to introduce the financial part of NetDragon to you.

Our gross margin is up 3.3ppts to 65.2%, and EBITDA margin is going up 4.8ppts to 23.4%. Our profit before tax is up 19% to RMB756 million, demonstrate that even though we encountered a drop in the revenue but our profitability is still there.

Our net cash has increased by 13% to RMB2.1 billion. And our operating cash flow – I would like to highlight here that we have been, for six consecutive years, over RMB1 billion in operating cash flow, which demonstrates our business model is sustainable.

Finally, the dividend, we declared a HKD0.5 for each share which means we have a 7.6% dividend yield based on yesterday's share price.

Here is some key financial highlights. The gross revenue dropped a bit to RMB6 billion. Due to the proactive optimization efforts in respond to the market demand evolution, our gaming and application services dropped by 6% to RMB3.9 billion. And the revenue for Mynd is still in the transition period. So the revenue dropped by 27% to RMB2.1 billion.

But our gross margin is still improved from 3.3ppts to 65.2%. The opex, which remained stable, the opex was around 3.3 billion, which is about the same in the last year.

Remember that we have increased our AI initiatives to control the costs. So that means we've taken place the cost optimization in the last quarter of 2024, which means the cost saving will be expected to materialize in this year.

Our EBITDA margin and profit before tax are going up in 2024. One point we want to highlight here is taxation. The taxation which include a one-time non-cash deferred tax provision expenses of RMB452 million, which is mainly due to the operating result of Mynd, which is not successful or loss-making in the previous year, which means we can't carry forward the deferred tax and have to make an impairment provision. Bear in mind this is a provision. So that means if Mynd's performance is improved in future years, this provision may be able to be reversed back to our P&L.

And cash flow, we have stable operating cash flow and increase the cash on net cash basis. So that's why you know we have increased our dividend per share from HKD0.4 to HKD0.5 in this final dividend in this year, which marked a 25% increase.

Turning into segment and most have been highlighted before. What I want to talk about is gaming represents about 87% of our gaming and application services revenue. And you know, as mentioned before, optimization only took place in the last quarter of 2024, which means we will deliver a full year cost-saving impact in 2025. That means it will be a quite good position for us to go for financial performance.

And for Mynd, you know, although the revenue dropped, our gross margin is improved by 1 ppts due to the lower unit cost and the freight charge cost.

Our segmental expenses, what we highlight here is we disposed our GEHI Singapore last year, which means, you know, in this figures, we include about USD10 million in the last year in the Mynd business. If taken out it, actually the opex will drop about 3.4% in the compared year 2024 and 2023, which is a good cost saving taken place in the Mynd level as well.

And we want to highlight here that since IPO, we have been declared a lot of the dividend in the past, which has already surpassed HKD18 since our IPO, which our final dividends also increased 25% yoy to HKD0.5 per share, which means we want to share our return to our shareholders.

In summary, 2024 was a year of the mixed financial performance. And our strategic execution and shareholders returns will be marked a good position for us going forward. Thank you for attentions.

Now turn to Lin Chen for talking about the gaming business.

Lin Chen:

Okay. Hello, everyone. I'm Lin Chen, and I'm delighted to present NetDragon's gaming performance in 2024 to you. Next slide.

Last year, we made very good progress in AI+Gaming. In fact, we began adopting AI the year before last year. In 2024, we achieved notable results in two areas. First, in cost reduction and efficiency enhancement. In terms of R&D personnel, we reduced our R&D team by 14% in 2024, which was a practical cost-saving measure in our cost reduction and efficiency enhancement efforts. At the same time, we found that AI has significantly boosted efficiency across various functions, not just in graphics but also in game design, programming, and customer support, delivering a 30–60% improvement across these areas.

AI has also delivered strong results in enhancing the gaming experience through AI-powered cheat detection and AI companions, AI has significantly improved the player experience of our game products.

We see tremendous opportunities in AI applications going forward. From a cost reduction and efficiency enhancement perspective, we are structuring our organization around AI capabilities and developing our AI content factory. In 2025, we expect even greater breakthroughs and achievements in this area.

In terms of creating new gaming experiences, we will continue to improve and innovate brand-new user experiences through intelligent NPCs. In particular, in the open-world MMO genre, we are exploring how to create a brand-new gaming experience by creating intelligent NPCs, including AI-generated game content. This is an area that we find especially exciting.

AI applications have also meaningfully supported the creation of high-quality content for our IPs. As shown in this slide, starting in 2023, we began adopting individual LLMs or vertical models which proved to provide certain efficiency gains in R&D. By mid-2024, we discovered that AI agent-based game production pipelines have the potential to disrupt the entire development and production process in the gaming industry.

Since last year, we have been gradually building our AI capabilities around AI agents, including our knowledge library. This has enabled AI to progress from handling single tasks to generating complete gaming projects.

Looking ahead, by building our AI organization and AI content factory, we will have the opportunity to achieve future-facing AI-driven intelligent production, which will significantly enhance both content generation and efficiency. This is the biggest opportunity in this AI opportunity window that we can capitalize on. Okay, next slide.

Games are experience-driven products. AI not only notably reduces costs and enhances efficiency but also significantly improves the gaming experience. Traditional game experiences tend to be linear and are quickly consumed. With AI, we have the opportunity to create more lifelike and future-ready emergent experiences. This is the most crucial aspect of a gaming company's core competitiveness. Okay, next slide.

Next, I'll talk about our IPs. The primary goal of our IP strategy is to build sustainable evergreen IPs with healthy operations in the long run.

First, our *Eudemons* IP. In the second half of 2024, we proactively adjusted its ecosystem and monetization strategy from a long-term operation perspective, including changes to its game channels. These adjustments were aimed at optimizing the ecosystem and the stability of our core user base. While it had some impact on revenue, we saw a significant increase in user activity, which is a core aspect of MMOs.

Many of our long-term initiatives are also beginning to show results, such as those with the *Eudemon PC-mobile Cross Platform Version*. Continuous updates and promotions on PC have driven significant growth in user activity. Moreover, live streaming and user acquisition efforts on mobile have notably boosted user activity. The data following these adjustments already reflect signs of sustainable long-term operations.

In the first half of 2025, we believe the improvements brought by these measures will help stabilize revenue compared to the second half of 2024. In the second half of 2025, we expect the benefits of these adjustments to gradually materialize, allowing us to return to a trajectory of sustainable long-term growth. Okay, next slide.

Next, high-quality content is the cornerstone that ensures the healthy growth of our games. Last year, we achieved excellent results with the Year Eudemon - Dragon in the first half of the year. From the Year Eudemon - Dragon to Spirit Eudemon and National Day Eudemon, these high-quality content releases have steadily increased the proportion of content-driven spending. This has also helped maintain our brand reputation and word-of-mouth among our users. Next slide.

This year, we will continue to launch more high-quality content, through collaborations with, for example, traditional crafts, culture, and intangible cultural heritage. We will consistently improve the frequency and quality of such content releases to drive healthy user growth. Next slide.

Culture+Gaming. It's very important for gaming, a content-driven industry, to seize the trends of the content economy and drive user activity. Our games have a great advantage in content-driven spending. The visual expressions and interactive experiences in our games allow us to showcase our core competitiveness on the cultural front, which also helps us gain better recognition from users and society at large. This will continue to be a focus for us moving forward. Next slide.

Looking at two metrics from our Eudemons PC game, in terms of our core business model and content-driven spending, which are the most important aspects, from the Year Eudemon - Dragon in the first half of last year to the National Day Eudemon and Spirit Eudemon in the second half, user consumption rates have notably improved.

Last year, due to macroeconomic changes, shifts in user consumption habits, particularly in cultural content consumption, led us to proactively adjust our payment strategies. This included lowering prices and reducing user entry thresholds. These adjustments have resulted in a noticeable increase in overall consumption rates.

For an MMO, sustained user activity and spending are crucial in fostering a healthy, long-term ecosystem and improving retention. We believe these efforts will help maintain a stable, long-term growth trend for the *Eudemons* IP. Next slide.

Next, our *Heroes Evolved* IP. Here we can see significant changes in its metrics.

In fact, *Heroes Evolved* IP saw a decline over the past two years. However, during this downturn, we successfully focused on two key areas: content and long-term operations. Thanks to our efforts in esports and content, we achieved a steady and continuous revenue recovery.

The performance of the *Heroes Evolved* IP has reinforced our confidence in long-term operations. For example, on the day of *Heroes Evolved*'s 10th anniversary celebration in January this year, all game metrics reached a three-year high, showing significant growth. We are confident that as long as we have the right content and operational strategies for our evergreen IPs, they will drive sustained growth in revenue and user base over the long term. Next slide.

In terms of the overseas performance of *Conquer Online*, we applied some of the successful strategies proven in China to international markets. For example, the PC-mobile cross platform strategy has had a very positive impact on both user acquisition and long-term retention. In addition, to better cater to the diverse preferences of different regions, we implemented localized, modular deployments. This allows us to accelerate our localized expansion across different regions this year.

So, excluding forex factors, our *Conquer Online* IP has shown a stable growth trend overseas over the long term. Next slide.

In terms of our new games, we have optimized our game pipeline based on a long-term operations strategy. Some R&D resources have been redirected to the teams working on our evergreen games, which are given priority, to ensure that we continue to maintain and improve the operations of our existing games.

In terms of our new game pipeline, under the *Eudemons* IP, our key focus is *Eudemons Remake Version*. This year, we conducted external user retention tests, and the results exceeded our expectations. It is relatively certain that we will launch this game within the year and achieve solid performance. Additionally, our *New Eudemons PC* has also met our expectations in external testing.

At the same time, with market changes, WeChat mini-program games saw significant user growth last year. We observed this trend and responded by launching a mini-program game *Legend of Eudemons* under our *Eudemons* IP. Going live last year, this game has the lowest user acquisition cost in our entire product lines and serves as an excellent way to engage with users of this IP. We plan to further promote it this year.

As for new games, we are working on *Code-Dragon* and *Nubela Rangers*. We have already signed a publishing and licensing agreement for *Code-Dragon*, and *Nubela Rangers* is in the process of refining its core experience, which has already received positive user feedback. Additionally, we have *Code-NW*, an open-world MMO, in our pipeline for the future.

From the pipeline perspective, we strive to gain latest insights of market trends and changes to optimize our product offerings. We believe that with our strategy for our evergreen games and all IPs, we will see strong user growth for new games in the future.

To summarize, at NetDragon Gaming, based on our strategy for evergreen games and our investment in and adoption of AI, we can significantly improve cost management and efficiency, which will greatly support the development of high-quality content. In the face of new trends, where users' expectations for experience and content continue to rise, AI will play a meaningful role in helping us reduce costs and improve efficiency, all while delivering even better content to our users.

At the same time, with the support of AI and as we continue to uphold our evergreen game strategies, we aim to achieve more stable revenue in the first half of this year compared to the second half of last year. Furthermore, with the launch of new games and the continued push from AI, we expect to achieve even better results in the second half of the year.

That's all. Thank you, everyone.

Simon:

Okay. Thank you, Lin Chen. Go get some water, because we need you back in the Q&A.

If you have listened to Lin Chen's presentation, he has mentioned AI so many times. So you'll just feel it as a continual theme for us going forward.

Okay, I'm gonna take you soon very quickly high-level on Mynd.ai, because it's actually a company listed on New York Stock Exchange. So I don't think I can go into too many detail, but I think it's good, as a shareholder, I'll take you through what we've been doing, so next page.

Revenue was down because of the headwind, but the good news is that we have done good at cost management. Freight is down, materials down, operation is down and we have also rationalized our employee count. So actually that's why is that we can achieve higher gross margin and all that.

Continue the theme of AI, this is our opportunity going forward. With 1.5 million classrooms around the world, our ability, which we will talk about in the next page. With our new architecture, we can put AI services into the classroom, allow teachers and students to interact much more effectively. Next one.

This is around our AP10. I talked quite a bit about it during the highlight to give you a visual of what we can do. We can configure it in many different ways, so which is the computation device of the entire classroom, allow teachers and students to interact. Next page.

This is a continuation of why we are doing AP10. Because we can unbundle basically the brain from the panel that we can deploy more services. Actually, we started doing it in 2024. That's why you can see we building up our recurring revenue stream. We will continue to do that in 2025 and onwards. AI again, is a big element of that. Next page.

We'll talk a bit about it. Just want to have your attention that we are doing a lot of, like a better term cleanup of our balance sheet and also get ourselves structured in a way that we can take advantage of the capital market in the U.S. when we need to.

So with that, I'm going to the outlook for 2025.

The first one I want to take you through, which is actually very exciting for us, is our partnership with a company called Wenge. It's actually we have signed a term sheet with them. They're gonna be investing RMB75 million of cash and AI assets. Cash is actually important, but the key on this one is actually the AI assets that they're gonna put into the company. I think this is actually a match made in heaven. Wenge is actually a spin-off from the Chinese Academy of Sciences. They have a lot of technology which I will talk about "Yayi" a little bit later on. We're gonna put this IP into this company. We can be working exclusively on market outside of mainland China, i.e. Hong Kong (China), Macao (China), and the rest of the world. Actually, AI is going to be a key on this one, so which is the

technology part, Cherrypicks.

We've been working with a lot of major customers in Hong Kong government, Hong Kong airport, MTR. And also, we gonna take everything out to the rest of the world. So it's actually a match between IP and AI and the ability to execute and deliver not only in Hong Kong but around the world.

I forgot to talk about we also work very closely with the Hong Kong government and also one of the software that Cherrypicks has worked on is PayMe. I'm sure a lot of you, if you're living in Hong Kong, we built that up for HSBC.

Let me talk a little bit about "Yayi". Actually, if you go to the chart on the right-hand side, it's actually something that we own in the company outside of mainland China. It's actually, if you've been tracking the large language model (LLM) of the AI agent tests, "Yayi" has been moving up. So if we look at the rankings, it's actually only behind some of the very notable LLMs, GPT 4.5, Gemini, DeepSeek, Kimi, and then it's us. So we are very excited. We are very excited about it.

What we're gonna do is we are gonna leverage IP and focus on certain verticals, i.e. industries, including education, by the way. I mean that's gonna be very exciting and to see how this venture can help us in AI education going forward. Next one.

I think the chart is probably a little bit misleading, so I apologize on that one. Let me give you the gist of orders. We are gonna build our AI plus content creation strategy. This platform will support both gaming, which Lin Chen talked a lot about, and also AI educational gaming, which I talked about many times before. So, that AI educational gaming is actually spanned across Mynd.ai plus what Cherrypicks is gonna do and all that. So I think that's gonna be extremely exciting.

Okay with that I'm gonna end on the note of the outlook for this year. On the gaming, I kind of repeated what Lin Chen has been saying. Our strategy is AI plus gaming, so we can help with our costs not only just on graphics but also on coding. We're gonna make sure our evergreen IP *Eudemons* is to continue to grow, so very important for us.

For Mynd, I think we'll continue to optimize our cost structure and then we can set ourselves up for success when the market returns. I did say when, yet I didn't say I like it.

Last but not least I think we're gonna be really focusing on that shareholder return. So simply put, we will continue to look at our dividend strategy and also the possible buyback of our share in the market at the right time.

So with that, thank you for your attention. Thank you for bearing with us. So we could open it up for Q&A. Thank you.

MC:

Thank you, Simon. Now it's our Q&A section.

You're welcome to raise question in two ways. Through the teleconferencing system, you may press *1，*1, on your keypad and our operator will put you through. Second, if you would like to raise questions via our webcast platform, please enter your question into the Q&A box on the right hand side of your screen.

Let's welcome our first question from the teleconferencing system. Thank you.

Okay. Right now there are no questions from the teleconferencing system. Let's move on to the first question from our online participants on Roadshow China. This question is about the collaboration with Cherrypicks and CAS Wenge. Could you provide an update on the current progress? And could you please share why you chose "Yayi"?

Simon:

Actually, very good question. We like it because we know what they are focusing on. By the way, we've been working with them even before we were talking about getting together, so we had experience with them. Obviously, if you look at the ranking of "Yayi" in the market, it's actually moving up. So we much wanna work with somebody that's up-and-coming. It's actually a little bit smaller than we work together to really focus on certain industries rather than working with the GPT4.5, which they are trying to approach the wider market. Where we are right now is that we have signed the term sheet. We're moving towards on the SPA. But that doesn't mean we are not working together, so I can't go into detail, but I think there are a few exciting projects that we're working on. Hopefully at the right time, we will be, in front of you, I tell you are the good news of those projects. Thank you.

MC:

The second question is from an investor on the Roadshow China platform and it is about our dividend. Will you continue to maintain a high dividend payout ratio in the future? Are there any plans regarding dividends and share buybacks?

Simon:

Okay. Well, I think that's a very good question. And if I may point you to what Wood had done, it's actually the last page of his presentation. That gives you a little bit of history on what we have done. And also point you to my closing comment when I was talking about the outlook. We're gonna be looking at returning, how we can return the value to the shareholders. So we will, I expect, will continue to have dividend paying back to our shareholders. And at the right time, we will definitely look at buying back.

MC:

Thank you, Simon.

Dear investors, I would like to briefly remind you of our Q&A process. If you wish to submit your questions via the online platform, please feel free to enter them on the right side of your screen. Thank you.

Next, we have a question from an analyst at Southwest Securities. Can you please tell us about your new product plans and the progress of their development, including new products in both the education and gaming?

Simon:

Lin Chen, you can go first.

Lin Chen (Translation):

Okay, let me walk you through our new product plans. As you saw in the previous slides, the first key segment is our *Eudemons* IP. *Eudemons Remake Version* is foremost under this IP. This product is scheduled for an open beta this year. This is a project with strong certainty.

Next, the *New Eudemons PC*. Theoretically, it is a next-generation product aimed at a broader user base. In line with the market pace of our product pipeline, we will concentrate our resources on products scheduled for launch this year before steadily advancing next year's new release.

Next, you can see that mini-program games have had significant user growth. We've launched the *Legend of Eudemons* mini-program game and identified strong opportunities with it. If the metrics continue to improve, we can leverage our AI capabilities to quickly roll out more mini-program games in the future.

Regarding other new IPs, the primary focus will be on game quality. For example, *Code-Dragon* is a product we've already signed with overseas publisher, while *Nubela Rangers* is a UE-based high-quality roguelike top-down shooter on mobile, with a unique gamepaly and market potential.

Looking ahead, our most important new products are the next-generation MMOs, which will be based on AI and intelligent NPCs. These are also in our pipeline already. And that concludes our new product plans.

Simon (Translation):

Okay, I'll follow up on Lin Chen's answer. AI is a central theme for us. We're not only focusing on AI in gaming but also exploring AI+Education. In fact, we're talking about gamified educational experiences that include interactive elements. As I mentioned earlier, our AI production line is designed to support both gaming and education. Therefore, AI in education will drive clear advancements.

Of course, our services, including games and what we call CaaS at Mynd, which can be integrated into our new product, AP10, but not limited to AP10 alone. We can also incorporate AI-powered games and content across both mobile and PC platforms. This is our overall plan: to integrate AI not just in gaming or education, but across both segments.

MC (Translation):

The next question is from Sun Mengqi from BOCOM International. Could the management please share the outlook on the future performance of *Eudemons Online*?

Simon (Translation):

Yes. Lin Chen, please.

Lin Chen (Translation):

Sure, let me elaborate further. *Eudemons Online* is an MMO game, and the most important core aspects for MMOs are user engagement, stickiness, and ecosystem. These are most critical for MMOs. As for revenue, it can fluctuate in the short term due to commercialization, pricing or other strategies.

As covered in the presentation, the entire *Eudemons* IP has seen continuously growing user stability and stickiness. Looking ahead, in terms of the user base, we believe this IP has a strong foundation and is moving toward a better ecosystem.

In terms of revenue, based on the data from January to March this year, we are confident that revenue has recovered to a normal level compared to last year, during which we underwent adjustments. At least for the first half of this year, we are on track to maintain the same level of performance as the second half of last year.

In the second half of this year, we have opportunities to regain a healthy growth trend, driven by improvements in our ecosystem, operational recovery efforts, and the launch of new products. This is something we've done well over the past 10 years. Thank you.

Simon (Translation):

Yes, just to add a point, we mentioned earlier about evergreen IPs. We fully expect Eudemons to be one of our evergreen IPs, which means it could be around for a long time.

MC (Translation):

Thank you both.

The next question is from Mr. Li, an investor joining us via Roadshow China. What is the main reason for the decline in the gaming business in the second half of 2024? The second question is: In NetDragon's Annual Report released today, there is an income tax of RMB642 million, with a deferred tax provision of RMB450 million. Can you provide the context behind this? Thank you.

Simon:

Wood, why don't you answer it first and Lin Chen can talk about…

Wood:

Yeah. English or Mandarin, the question?

MC (Translation):

Mandarin please.

Simon (Translation):

Lin Chen, why don't you go first?

Lin Chen (Translation):

Okay, let me give you a detailed idea of the factors behind the decline last year. As mentioned earlier, due to changes in the market and users, we made some proactive adjustments, which can be broken down into a few areas. The first one is our commercialization and pricing strategy. The influence of the macroeconomy led to changes in users' spending habits, so we actively lowered certain prices and user payment thresholds. This was intended to encourage more users to participate in our campaigns, but it might have had a short-term impact on revenue.

Secondly, in terms of the overall user structure and ecosystem, to ensure the long-term health of the ecosystem, we reduced the proportion of traditional numerical-value-driven spending that could widen the gaps between high, mid and low spenders. While this caused some short-term impact, it is expected to contribute to better long-term outcomes.

In addition, regarding mobile game operation channels, we evaluate their performance in terms of payment returns, as well as user and ecosystem operations. For channels that we believe do not meet our standards, we have made continuous optimizations. All of these factors have led to some short-term decline in revenue.

However, at present, we believe the factors above are manageable and also necessary to ensure that the *Eudemons* IP can sustain long-term operations for the next 20 years. Okay, thank you.

Wood (Translation):

Okay, let me answer the question about the deferred tax.

Out of the RMB642 million in income tax, RMB420 million is an one-off, non-cash accounting treatment for deferred tax. Here's the context: Mynd had some losses, and when we discussed with the auditors, we learned that the tax losses from previous years could be used to offset future taxable income and this resulted in a deferred tax asset. An impairment provision need to be recorded against it. As mentioned earlier, this is one-off and will not happen again in 2025 or beyond. That's the first point.

The second point is that if Mynd's financial performance improves in the future, this tax impairment is not permanent. If we have taxable income in the future, we can still use it to offset that income. So, this is just an accounting treatment, and if Mynd's performance improves, we can reverse the impairment.

Simon (Translation):

Let me add a point. The tax loss comes from past activities that incurred losses, which we had kept on our balance sheet. As I mentioned earlier, as part of our fiscal management, we made a reserve for it. The key point for you to understand is that this is a one-off, non-cash accounting entry. I think that's a very important takeaway.

Wood (Translation):

To add to that, you can see that our net cash has continued to grow, and our operating cash flow has remained above RMB1 billion for six consecutive years. That's why, as mentioned earlier, our dividend payouts have been steadily increasing. This (deferred tax assets impairment) has no impact on our cash flow, which is why we handled it this way.

Simon (Translation):

Very good point. Our net cash is still growing.

Wood (Translation):

Yes.

MC:

Thanks. Thank you, Simon. Thank you, Wood.

Our next question comes from Victor Khoo from Lumiere Capital. Actually, this question we have answered already, but I'll just repeat it. Why did the game core profit drop so significantly from RMB688 million in 1H to RMB237 million 2H 2024? Can we expect a meaningful rebound in 1H 2025?

Wood:

Just repeat what Lin Chen said. This is a proactive adjustment we take for evergreen IP, so that the revenue is taking a strike back in the 2024 second half. For this year, you know, we would expect the HoH will be a little bit flat in the first half, and the second half will, because of the new games coming in and adjustment taking place in the second half in the last year, so that means second half will bounce back to (normal for) our revenue or the core financial performance. So, once again, the first half, because the adjustment took place in last year second half. So that means first half we still a little bit drawn back (compare to) the first half (last year), but the second half we will have a healthy growth again into the future.

MC (Translation):

Thank you, Wood.

Next, we have a question from an analyst at SDIC Securities International Financial: I'd like to ask about Mynd's business. We saw a decline in Mynd's 2024 revenue. What specific measures do you have to drive a recovery in revenue going forward?

Simon (Translation):

Firstly… in Mandarin?

MC (Translation):

Mandarin. Yes.

Simon (Translation):

First, there are two main reasons for the decline in revenue. One is market related. As I mentioned earlier, Mynd's strongest markets have always been the U.S. and Europe, both of which are facing challenges. In Europe, the war between Ukraine and Russia has had an impact. Each country also presents their specific issues, such as elections.

In the U.S., the main issue is what we call uncertainty of the budget. Over the past few years, during COVID, schools received significant funding and made many upgrades, which had a positive effect. We are expecting the replacement cycle, which is going to return. This is one aspect. We anticipate the market will recover in 2026. That said, this year remains quite challenging.

The second reason is related to the YoY comparison. We sold our Singapore preschool business, GEHI, as it was non-core. To make a fair comparison, this business needs to be excluded to ensure an apples-to-apples comparison.

The third point is our new services. We believe that shifting to recurring revenue is a healthier growth strategy, especially considering our user base of 1.5 million classrooms. We offer a lot of services, such as ActivSuite and Explain Everything. These are where we can provide value-added services.

AI is another direction we are exploring. We've made some adjustments by transforming certain products from one-time sales into recurring revenue streams. This is another key focus for us. Last year, we achieved around USD5 million in SaaS revenue, and we expect continued growth this year. The good thing about SaaS revenue is that it grows gradually, which is very different from one-off sales. So, we're increasing revenue with multiple sources.

Another key factor is our AP10. With AP10, we've moved the OPS outside of our devices, making it easier to deploy services. This will also act as a growth driver going forward.

MC (Translation):

Thank you, Simon.

The next question is from an analyst from CITIC Securities. You've actually partially addressed this question, but he would like to ask again if we have a clearer guidance or outlook for 2025 regarding educational hardware and SaaS.

Simon (Translation):

We do not provide guidance on this call, sorry about that.

MC (Translation):

Thank you.

I would like to remind all investors once again that if you wish to ask questions through the online platform, please type your question in the question box on the right side of your screen. If you wish to ask questions via the teleconferencing system, please press *1, *1. Thank you.

The next question is about our AI strategies. Mr. Qiao has a question: AI in education is currently driving significant economic growth. I understand that NetDragon has some plans for its entire education business. Could you provide a clearer or more detailed explanation of your direction for AI in education and any upcoming product launches?

Simon (Translation):

There are two aspects. First, since our roots are in gaming, we focus on AI in gaming and AI-powered educational games. We will invest a lot of energy in this area. In fact, we can leverage our advantages in gaming to create some interactive games that engage students and help them learn. This is one aspect.

Previously, I talked a lot about what we offer in classrooms, so we can integrate various AI services there. For example, helping teachers prepare lessons, grade assignments, and assist with teaching materials. AI can also help students interact with teachers in the classroom. With AI, each student can receive personalized support. I believe this could be a revolution in education, and this is one of our directions. Thank you.

MC (Translation):

Thank you, Simon.

We see that there are still some questions on the webcast platform. Next, this is a follow-up question from Mr. Qiao, the same person who asked questions earlier. Simon just talked about AI+Education, and Mr. Qiao would like to ask Lin Chen if he could elaborate more on AI+Gaming. In particular, apart from traditional areas like efficiency enhancement, what are your thoughts on AI+Gaming in, for example, product launches? Thank you.

Simon (Translation):

Yes. Lin Chen.

Lin Chen (Translation):

Okay, I think there are two aspects, and our primary focus is on how AI can support innovation and improve user experience.

First, regarding our existing product line, I believe AI can still help us significantly enhance operational outcomes and the gaming experience. In terms of operational efficiency, AI has already demonstrated clear results in areas such as churn prediction, providing better customer service, creating more dynamic content, and also production. Moving forward, we will gradually strengthen these aspects.

Next, our new games. Regarding our new games, the first is intelligent NPCs, which I mentioned earlier. MMO is our strongest genre, and the most important aspects of MMO games are immersion and social interaction.

In the past, our content production model was limited, which made content finite and our MMOs more of a closed system. However, with what AI offers, we can significantly enhance the realism of world-building, as well as the volume and authenticity of interactive experiences. We believe AI in gaming presents a huge opportunity in the MMO genre.

Secondly, as I mentioned earlier, in the past, social interactions within games were primarily between players. For competitive games, there would always be winners and losers, making it difficult to ensure a positive experience for every player. With the help of AI, users can now find a more personalized role within a social ecosystem created by intelligent NPCs, leading to a significant improvement in the user experience. Therefore, in MMO games, we see AI as a huge opportunity to innovate and enhance the user experience.

At the same time, AI will notably reduce our trial-and-error costs. As you know, when developing new products, every company faces pressure regarding success rates. The rapid production and iteration capabilities of AI allow us to continuously refine user experience and lower our trial-and-error costs. This provides us with the opportunity to experiment more with new genres and product categories. These are some of the ways AI can assist us. Thank you.

Simon (Translation):

If I may add, in AI for education, of course I also mentioned the AI content factory in the presentation-this is actually one of our key foundations. AI enables us to produce different content based on the needs of each student or teacher, or the requirements of each country, to help both teachers and students. Ultimately, what we're aiming for is personalized learning, which I believe will be very important for the future of education. This is our ultimate goal.

MC (Translation):

Thank you, Simon. Thak you, Lin Chen.

Next, let's take the last question for today. It's about our cost control and efficiency enhancement strategies for 2025: What cost reduction and efficiency enhancement strategies do you have for 2025, and do you have any specific goals in this regard?

Simon (Translation):

Firstly, cost reduction is something we've been working on all the time. Last year, we made significant progress in optimizing our headcount and employing AI to improve many areas. For example, using AI for coding is already common in areas like gaming and education, and the same applies to graphics.

When it comes to cost optimization, especially in a challenging global economic environment, we are definitely looking for ways to save costs on an everyday basis. This will certainly continue, both in gaming and education. AI will undoubtedly play a role here. I believe that if we don't embrace AI, life will be tougher in the future. So, we will continue to make cost improvements.

MC (Translation):

Thank you, Simon.

Thanks to Simon, Wood, and Lin Chen.

Our annual results presentation has now come to a successful close. We would like to thank our investors for joining us today, and we appreciate your continued interest in NetDragon. If you'd like to have further discussions with our management, please feel free to contact us to arrange one-on-one meetings.

Thank you! Wishing you all a wonderful day.