NetDragon Websoft Holdings Limited
網龍網絡控股有限公司

NetDragon (0777.HK) 2026 Interim 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 investors, good morning. Thank you for joining NetDragon Websoft Holdings Limited 2026 interim results presentation.

Before we start, please allow me to introduce the managements 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.

Simon:
Okay, thank you. Good morning, good afternoon, good night, or whatever. Thank you for joining us today. Let me kind of, well, I'm not gonna go through the agenda, because actually, you guys are probably very familiar with the agenda. So what I'll do is actually, I'll hit the highlights of our half-year results, and then I'll hand it over to Wood, and then we'll also go into the businesses in more detail.

So, the good news is actually on the gaming side, we delivered a growth HoH, which is actually very good news for us. That shows the resilience of our flagship IP, which is actually really good news.

The second big one is actually something we started much earlier, but I think we are kind of wrapping it up as a product, which is the AI Workforce OS, which I will talk about a little bit later, that continue to support the cost reduction, and in turn support the growth of our gaming business, and also the education business going forward. Again, Lin Chen and I will talk about it, how it will support our business going forward.

Last but not least, in gaming, actually, AI continues to help not only on the cost side, but also on the growth side.

For Mynd.ai, the education business in the US and Europe, is still facing a lot of headwind, because of, you know, domestic issues in the US, you know, the two wars in both Ukraine and Iran. So it's actually facing a headwind. We successfully narrowed our loss. I'll go into a little bit detail later on.

Another milestone that we hit is actually we delivered our latest product, which is AP10 for the premium market, and also the AP LE to address the value market. The AP10 Premium is actually quite critical, because that supports the third point I want to mention.

The good news on SaaS is actually we've grown our business year over year. This is gonna be our future. When hardware got commoditized, SaaS revenue is very important. The AP10 is actually designed to support all the SaaS businesses going forward, including deploying AI on our panel, which I will talk a little bit more about it. So with that, I'm gonna turn it over to Wood to talk about the results.

Wood:
Okay, thank you, Simon.

Good morning, everyone. I will walk you through the financial highlight for H1 2026. For the revenue, the total revenue of the Group is 2.1 billion for H1 2026, which is down 12% YoY.

And for segment, gaming and application services revenue was 1.6 billion, which is down about 9% YoY. But, you know, despite the YOY decline, we have seen, you know, a significant signal of stabilizing and recovering, with a HoH growth by 3% for this half over the second half of last year. And for Mynd.ai, revenue was about 505 million, which, due to, you know, the delayed pace of the industry-wide demand recovery. And for the constant exchange rate, the decrease was a little bit lower to about 17%.

Gross profit is about 1.5 billion, which falls in line with the revenue trend. And the cost side, we continued to execute an AI strategy and the overall opex decreased about 18% to about 1.1 billion. And for three major opex, selling and marketing expenses decreased about 15% YoY to about 283 million. For the administrative expense, it decreased about 12% to about 418 million, reflecting our continuous effort to deploy AI applications to enhance our internal efficiency. R&D expenses decreased about 24% to about 409 million, which is driven by the operational deployment of our AI Employee Matrix, which supports structural transformation and efficiency gain. As a result, our profit attributable to owner of the company was about 36 million, which increased 20% this year.

And I would like to draw your attention on the two major items here. First, we made a ETH impairment provision for H1, about RMB 130 million, which reflects, you know, the ETH price hit a multi-year low at around USD 1,600 in the assets of our interim end. The ETH price already recovered a bit as of now.

And secondly, the one-off severance payment was decreased about 42% to about RMB 88 million, which indicate our operational structure is gradually reaching a new normal. Excluding these two factors, adjusted profit attributable to our owner of the company was about 254 million, which down about 8% YoY, which is relatively stable given the market situations.

Finally, our Board has declared an interim dividend of HKD 0.5 per share, which is not changed from last year, reflecting our commitment to our shareholder return plan announced March this year.

Turn to the next page to our segmental financial highlights. Starting with our gaming and application services, the revenue was about 1.6 billion, down 8.8% YoY. Gross profit was about RMB 1.3 billion, down about 12% this year, with a gross profit margin that is over 83%.

Our core segment profit was about 461 million, which is still a little bit lower compared with the same period last year. But, you know, our HoH core segmental profit has already improved. Segmental operating expenses was reduced across three key categories. For our R&D, the decrease was about 23%. For selling expenses, the decrease was about 9%, and for administrative expenses, about 5%. Overall, the operating expenses for the gaming segment was down about 14%, as a result of the cost-saving effect our AI strategy continues to bring. Importantly, our core segmental profit improved HoH, demonstrating our business stabilization and operational efficiency.

Moving to Mynd.ai, revenue was about RMB 505 million, which was down about 21%, which was mainly driven by lower customer spending and delayed demand recovery. Our gross profit was about 140 million, down only 14.1%, which saw the gross margin improve, because of our cost-saving strategy. And our core segmental loss narrowed to about 126 million, down from 195 million last year. The improvement was mainly supported by our continuous cost reduction. R&D expenses down about 27%, selling and marketing down about 25%, administrative expenses down about 56%. Overall, Mynd's operating expenses were down about 29% YoY, as we continue to optimize our cost structure while waiting for broader industry demand recovery.

To conclude, although the top-line growth was under pressure in H1, we made a solid progress in our cost control under the AI strategy. These actions helped us to improve our operational efficiencies and maintain our stable shareholder return.

So this is H1 highlight. I turn to Lin Chen for talking about the gaming business.

Lin Chen (Translation):
Good morning, everyone. It is my pleasure to present NetDragon's gaming performance for H1 2026.

Starting with revenue and R&D, we delivered solid results in H1. On the revenue side, we achieved HoH growth. Looking at the overall trend, we have maintained stable revenue while laying the groundwork for future growth.

In terms of the key drivers of revenue growth, first, we have continued to execute our existing strategy, deepening our focus on content innovation while continuously enhancing community engagement through long-term operations. The growth was primarily driven by an increase in our user base. We believe this represents a very healthy form of growth for an MMO game, which provides strong support for stabilizing revenue and returning to growth in the future.

You can also see, on the cost side, particularly R&D costs, deeper AI application and integration have enabled us to continuously reduce R&D cost and enhance R&D efficiency. The trend is also clearly reflected in our R&D costs.

Next, I would like to walk you through the performance of our core IPs in H1. First, our flagship IP, *Eudemons.* As you can see, our active user metrics rose significantly during H1. This drove a HoH revenue recovery, contributing substantially to the game's long-term development.

Meanwhile, when it comes to AI adoption, we initially started with non-core projects. But as these AI applications matured, they gradually penetrated into the main R&D processes of our core IPs. It gives a significant boost to efficiency not just in game design, but also in content development. This provides strong support for our long-term growth in the future. From a broader market perspective, consistently providing users with high-quality content is something the entire gaming industry must achieve. OK, next slide.

The growth in revenue and user base in H1 mainly came from two aspects. This year marks the 20th anniversary of the *Eudemons* IP. Built around this milestone, we launched new zones, storylines, classes, and social system enhancements. These in-game feature and content updates significantly drove the return of users. Not only did more users return, but user stability and retention also improved greatly. For an evergreen game, our long-term retention was already at a very high level. Through this optimization, we achieved at least a 2.8% increase in long-term retention, which points to a stabilizing user foundation. We expect this ecosystem to continuously improve and stabilize. This will provide strong support for our user ecosystem and revenue going forward. Next slide.

Next, I must highlight AI's contribution once again. First is its impact on content production. Although our R&D costs have declined, content output for our flagship products has actually increased YoY. Compared with H1 2025, we have launched more versions and content.
For our core *Eudemons* products, content output has increased by at least 10%. Whether in terms of content, gameplay, social features, or public welfare initiatives, we have the ability to launch more content through AI. At the same time, we have significantly enhanced the breadth and depth of our content. This is a form of long-term capability building. Going forward, as we further deploy our AI capabilities, we believe content output and quality for our core products can continue to grow steadily over the long term. Okay, next slide.

Moving on to our *Conquer* IP, overseas revenue served as a major highlight in H1. The game saw an expanded user base and delivered strong revenue growth, excluding the impact of forex fluctuations. This growth was fueled by ongoing MMO progression enhancement and localized casual marketing efforts.

In fact, AI gave an even greater boost to the *Conquer* IP. When serving diverse overseas markets with different language requirements, we have an opportunity to efficiently develop web, mobile, and multilingual editions through AI. This allows us to reach more users while reactivating legacy users, driving continuous growth in active users and revenue growth. Looking ahead to H2, we expect *Conquer* to sustain a strong growth trajectory. Okay, next slide.

Turning to the *Heroes Evolved* IP, its PC game delivered very good results in H1. Having celebrated its 10th anniversary last year, *Heroes Evolved* has now entered its 11th year of operation as an evergreen IP, and still delivered solid YoY growth. For a MOBA game, IP rejuvenation is particularly important. In H1 2026, the IP collaboration with B.DUCK received very positive feedback from users, especially younger users. This has provided significant support by continuing to revitalize the overall game ecosystem. With our ongoing content iteration and esports initiatives, the IP/game's overall popularity have continued to grow. Okay, next page.

Next, we launched more "Game + Cultural Tourism" integration projects in H1 of this year. In fact, throughout the content industry, "Game + Cultural Tourism" has gained strong government endorsement. Governments, including local culture and tourism bureaus, are increasingly eager to collaborate with our games and let us draw on cultural assets for content.

With the assistance of AI, we can move beyond simple collaborations to deeply integrate cultural tourism content into gameplay. These efforts have received very positive feedback from users, both in terms of engagement and monetization. From a long-term perspective, supplying evergreen IPs with high-quality cultural tourism content and carrying out continuous integration and outreach has created a virtuous cycle. We also expect that continued investment in this aspect will inject greater vitality into our long-term games. Next slide.

Next, regarding AI employees, we already shared our overall outlook for this year at the previous results presentation. In H1, we have made solid progress against that original plan. First, AI now accounts for 35% to 40% of our overall workload, continuing its year-over-year upward trend. At the same time, AI has not only reduced R&D costs but also improved the quality of our content output. AI employees are no longer merely tools. They have evolved into autonomous AI staff capable of independently taking on tasks, analyzing assignments, and interacting with other agents.

Another important point is that game development has so-called inherent periodicity. Our AI workforce can now scale in real time according to the workload. In other words, for a given role, we can simultaneously deploy 100 or even 200 instances, equivalent to having 100 to 200 employees working at the same time. This is transformative for game development. For new game incubation, where historical debt is lower, AI can play an even greater role and account for a higher proportion of the workload.

In H2 2026, as these individual capabilities continue to accumulate, we will be able to build a stronger content loop, with significant opportunities in AI-powered content production and operations.

The industry is increasingly focusing on integrating game development and operations. Through AI, we can better connect game development with game operations. In H2 2026, I believe AI-driven efficiency gains, particularly their impact on revenue growth, could play an even greater role.

In particular, with the Group’s continued investment in AI, our exploration of intelligent decision-making and self-learning has also revealed remarkable opportunities. We believe we are well positioned to capture the benefits of AI and leverage them to drive stronger growth. Okay, next slide.

Here is a small case study. In some areas, actually, we have already achieved a fully AI-automated loop. For example, for the *Heroes Evolved Pocket Version*, leveraging our AI employees, we can simultaneously create user acquisition materials for the game tailored to more than 100 countries and distribute them across those markets. When we conduct A/B testing against traditional human teams, we find that AI has already surpassed human capabilities in certain areas. In the past, we did not have the capacity to promote our game across more than 100 countries. In addition, in terms of efficiency and opportunity discovery, AI has identified opportunities in specific countries and regions that our human teams had not found. This is particularly valuable to us. AI has potential not only to reduce costs, but also to identify new business opportunities and improve efficiency. Exploring and scaling these capabilities will be a major focus for us going forward. Next slide.

In summary, AI has established complete loops in certain areas of content production. The first is AI-powered localization. For several core evergreen IPs, AI enables us to rapidly launch different language versions. By tailoring our content to the cultures and preferences of each country, we can expand our localized offerings, bring existing products to more markets, reach more users, and ultimately drive revenue growth. Starting from our existing core versions, whether in terms of IP or gameplay, AI enables us to develop more content variations, expand our user base, and reach more potential user segments. At the same time, the closed loop between AI-powered localization and AI-powered operations gives these content offerings greater potential to better meet the needs of different markets.

We see notable differences in content preferences and cultural backgrounds across different regions and countries. In the past, we generally could only develop a standardized version. Now, with the support of AI-powered content production and operations, we have the opportunity to develop more tailored content and promotional campaigns for individual markets and countries. We believe this will provide significant support for the gaming business in H2.

Next, in the incubation of new games, our experience over the past one to two years has given us valuable know-how. We have continued to refine our approach, progressing from using AI to build games, to creating games that are fun to play, and ultimately to developing games with stronger commercial potential. Looking at our H2 pipeline, we will continue to explore areas where we have strong technical capabilities and where AI can provide end-to-end support. These include AI-powered roguelike games, cultural tourism games, and short-drama games. MMO games, by nature, are all-encompassing and incorporate a wide range of gameplay mechanics. We will also take gameplay mechanics that have proven successful in our existing games and develop them into lightweight standalone games.With the support of AI, we believe these initiatives could unlock opportunities in both domestic and overseas markets.

Overall, we remain firmly committed to investing in our core IPs and building our user base and IPs over the long term. This will help ensure stable long-term revenue from our IPs while supporting continued organic growth in the future. With the support of AI, we will have more opportunities both to expand revenue from our existing games and to pursue new growth opportunities, thus having considerable room for future development. We look forward to stronger performance in H2 of this year and into next year. Thank you, everyone.

Simon:
Thank you, Lin Chen. Let me kind of go through Mynd.ai very quickly and then I'll go into one of our strategic moves, which is the AI Workforce OS going forward.

So for Mynd.ai, I think we've talked about it. Actually, we managed to increase our gross margin and also decrease our opex in a very hard time. By the way, in terms of the optimization of costs, actually, we have continued and we will continue. You will see the result in H2 2026. And if you look at the performance, actually, we really narrowed the loss in Q2. So we are on the path to our EBITDA break-even in H2 of the year, which is a combination of cost reduction and optimization. Also, taking advantage of the buying season in Q3, in the latter part of Q2 and Q3, so which we are encouraged. So, yeah, thanks.

This is actually very critical to our path forward. Like I said earlier, the AP10 launch is actually very critical for the deployment AI services. And, for the the LE, it's actually our product that we can address the lower end market, which we call the value market, which mostly is the market outside of the US. But that said, with budget pressure in the US, we also expect to see the LE will pick up momentum. That said, we also continue to look at whether we can provide an even better price performance product, in the line of which you will hear from us very shortly. Next.

Again, very important. This is actually related to our AI Workforce OS. We have over a million classrooms around the world, which is a great user base to deploy AI services. So we'll continue to work on this. We call it million classroom agile sockets. If we can deploy AI services into all of these sockets, we will create a very significant SaaS service going forward, which we are very excited about. Next.

Okay, let me turn it into AI Workforce platform, which I talked about earlier. Lin Chen also talked about it. I'm not gonna go into great big details because this slide is really designed more like a product introduction. Since this is an earnings call, I will hit the high level. So, if you remember, we talked a lot about using AI, embracing AI. This is the result of doing the embracing of AI. What we often realize, what we are using AI to support our core gaming business and also our education business can be a really good platform for us to support, other businesses and other sectors. So we decided to productize all the AI features that we developed, and also with the introduction of agentic AI, we feel this is actually a great opportunity. So this is the result of that. Next.

So if you look at this, it's actually we basically created a foundation with all the features in there, and then we can create a workflow using agentic AI to help businesses to grow. So we now focus on different verticals rather than approaching it from a horizontal standpoint. You can kind of think about it as really we are like an employment agency. Whatever employee you want, you want the employee who can come in, and you can employ the AI employees, and to support your businesses, which we are very very excited about. Next.

So, from a go-to-market standpoint, we see many different ways to do it. First of all, first and foremost, our businesses, both, gaming and education, will embrace this 110%, if you will. And then, of course, we will go after other businesses, which I have a slide on the next page to show you. But the key on that one is actually our differentiation, which is our our moat. Our moat is actually not really about the AI technology itself, because we are not in the frontier model. We're gonna be using whatever model that fit our purposes. So, we're gonna be using all the models, if you will. But along the way, we're gonna gain a lot of domain expertise and knowledge, which is our differentiation. That's why we call it the data flywheel that will drive our competitive edge. So again, I mean, going back to what I talked about earlier, a lot of people think about doing AI is actually working on a large language model. That's not our case. Now, but that said, we're gonna be doing something which I'll explain later on, which we call sovereign large language model. But the key is actually is along the way, we're gonna gain industry knowledge that work with our AIs that will be our big differentiation. Next one.

So this is the use cases that we talked about. Leveraging all the AI capability on our platform. The number one, we can go B2C. We can, you know, we can do our games, which Lin Chen talked a lot about. We can do learning, whether we do it through comic books or interactive courses, and all that. We can continue to do that.

But equally important, if not more important, is actually we can support B2B and also B2G. So we continue to use this platform to support our movement in Thailand, but not limited to Thailand. I can't talk about it right now, but it's actually talking to a lot of countries in Southeast Asia to use the same concept that we have in Thailand to support their growth. A lot of nationwide AI education products that we can support, one being Cameroon that we talked about. That's the one that we will do what we call a sovereign large language model. Again, we're not gonna do large language model capability ourselves. We're gonna leverage the open-source or open-weight model around the world, mainly the few from China and then in the US, probably will be Gemini, in China will be either Qwen, DeepSeek, or Kimi, to support our education large language model.

The idea is actually is to localize and verticalize the education model in a school that we can support it. Because in some of the African countries, they do not have access to internet, and they do not have access to the large language model that is around the world. So with us doing what we call sovereign large language model, which basically run on a USD 5,000 GPU PC that you can support the entire school. So we see that as a great basis for us to help us in our education businesses. I mean, that approach is not only limited to developing countries, we're also piloting that in Hong Kong as we speak. You know, about four schools right now across different sections. So that's I mean, when I talk about that, I also cover the smart education platform, sovereign LLM.

In a nutshell, this is actually what we do. We started out internally, we embraced AI, but that whole effort has morphed into our future strategy, which is leveraging the AI Workforce platform to support our growth in gaming and education, but also help us to expand into other businesses. Next.

Okay, with that, let me comment on the outlook really quickly. I think we talked about it. Lin Chen talked about it. In gaming, we continue our growth. We continue to embrace AI. And then, I'm looking forward to our AI native game taking off in H2 of the year.

For Mynd, I also talked about it. We'lle continue with cost optimization. Actually, on that one, we have deployed a lot of AI services, especially in customer support, in all the backend services. To deploy AI services in the US is a little bit more tricky, because of the data privacy issues. Actually, the same thing applies to Europe. But we have ways to get around it, so we continue to be optimistic.

We are seeing some signs of market recovery in North America. Budget is being released, so that's why we are cautiously optimistic about H2. Again, I talked to nauseam about AI and also sovereign LLM, so that's gonna be our future.

So in a nutshell, we are cautiously optimistic about H2. We believe it will be at least EBITDA break-even in H2 2026. With that, I'm gonna close this presentation. Thank you for your patience. now we're gonna open it up for questions and hopefully some answers.

MC:
Thanks, Simon. Thanks, management. Now it's time for our Q&A section.

If you are joining us on the webcast platform, please click the Q&A button on the right-hand side of your screen and key in your questions. If you are joining us via phone line, please press star one, star one, and our operator will bridge you through shortly. We are welcoming questions in both English and Chinese.

So let's welcome our first question.
Our first question comes from an analyst at Sealand Securities and concerns our gaming business. The gaming business saw a clear H2H recovery in H1. What is management's outlook for the gaming business in H2? How confident are you in continued revenue growth? Thank you.

Simon:
Okay, Lin Chen.

Lin Chen (Translation):
Okay. Our H1 revenue stabilized and recovered mainly through improvements in user volume and user activity. We expect this trend to continue in H2. Of course, we will strive to achieve roughly flat YoY performance in H2. However, we will not deliberately pursue revenue growth, as

we remain focused on the long-term operation of our games. Regarding incremental revenue, we still have several catalysts ahead, including the launch of licensed mecha game IPs, AI games, and various IP content updates. We also expect these initiatives to have a positive impact on our performance. Thank you.

MC (Translation):
Thank you, Lin Chen. Next is a follow-up question regarding the gaming business. We noticed that the overall adoption of AI in gaming delivered impressive results in H1. What are management’s expectations for AI enablement in content development and operational cost reduction in H2 and beyond? What additional steps do you plan to take?

Simon (Translation):
Let me touch upon this first. Actually, we have been utilizing AI in gaming for quite a few years, not just starting in this H1. Lin Chen, probably you can address that question.

Lin Chen (Translation):
Okay. In terms of efficiency gains, AI initially delivered noticeable cost reductions during early stages of adoption, given the vast headroom available. Starting in H1, as I mentioned earlier, some of these efficiency gains were reflected in cost savings, while others were reflected in increased content output. Going forward, as our closed-loop AI development and operations pipelines take effect, we aim to channel more of these efficiency gains into revenue growth. This means our R&D headcount will likely remain relatively stable in the coming period. As efficiency improves, we can reallocate more R&D resources toward AI games and the expansion of new business areas, reinforcing a virtuous cycle of growth.

Wood (Translation):
Let me add a quick point here. When Lin Chen mentioned maintaining headcount stability, he was referring to the level as of the end of June. In H2, efficiency gains and cost reductions will continue to be reflected in our results. We will also continue to optimize our team structure in H2. As Lin Chen mentioned earlier, AI adoption in our games has increased from a relatively low level to around 50% today, and is expected to reach 60%–70% in 2027. So we expect the efficiency gains and cost reductions to remain visible in H2 2026 and 2027. I expect the impact in H2 to be roughly comparable to that in H1, while the incremental effect in 2027 may taper off slightly as the baseline gets lower. You cannot maintain a constant YoY rate of cost reduction indefinitely. That’s not possible.

So as Lin Chen noted, our future priority is not solely cost reduction, but leveraging content optimization to drive top-line growth. Looking at the data, cost reduction will continue in H2

2026 and 2027, accompanied by increasingly evident content enhancements resulting from AI adoption in gaming. Thank you.

MC (Translation):
Great, thank you. Thank you, Wood and Lin Chen.

Our next question is also a follow-up from the analyst at Sealand Securities. We noted that Moyu AI looks very interesting and has officially entered public testing. We are eager to learn more about your commercialization roadmap. Second, how do you view the competitive boundaries between Moyu AI and existing general-purpose models or AI agent platforms in the market? Specifically, in domain-specific scenarios such as education and content creation, where you have more vertical data, how do you see your competitive advantages playing out? Thank you.

Simon (Translation):
How much time do we have left? That might take...

MC:
We have...

Simon (Translation):
I'm just joking, just joking. This is what you would call a "loaded question" in English. It's actually several questions in one. But let me address it briefly.

As I've stressed repeatedly, we do not develop LLMs ourselves, so we do not compete with them. Instead, we maintain very good relationships with them. At present, no single model can do everything well, as each model has its own strengths and weaknesses. Our platform dynamically routes workloads to whichever LLM that best matches our customers' requirements and expectations. For example, for video generation, it would call a specialized model; for other purposes, it would use a different model. This allows us to deliver the optimal cost-performance balance for our clients. This is the first point.

Second, regarding domain knowledge, it goes far beyond simply collecting data. The key is how we process the data we collect into knowledge. That's why I also touched on sovereign LLMs earlier today. A sovereign LLM does not necessarily have to be a large model. It can be implemented through various approaches, such as traditional LLMs, Retrieval-Augmented Generation (RAG), or LLM Wiki structures. This is what forms our competitive differentiator.

Earlier, I touched on our business model, which covers both B2C and B2B. I believe B2B could help us scale more quickly. Internally, we see opportunities to apply the platform beyond gaming and education, including in financial services and training. We've discussed extensively about gaming, so I won't repeat those details.

In education, there are several areas we are exploring. First, as with gaming, we are already making extensive use of AI to optimize costs. On the product side, we are looking at how we can help teachers with classroom instruction as well as lesson preparation at home. We are also exploring how to leverage our AI Workforce OS to help schools with administration. For example, we have a concept called an "AI Vice Principal," which could handle a range of administrative functions.

So this actually brings us back to why I mentioned the SaaS model earlier. We are quite encouraged because our products are deployed across many classrooms. We can also integrate our AI Workforce platform into the panels in those classrooms. As for the AI surface, or the underlying LLM, we have considered several approaches. First, we will definitely work with other LLMs. At the same time, we are also considering building so-called sovereign LLMs, which could be deployed in two ways. One is to host them in the cloud, the other is to deploy them locally within the school. In fact, we are already testing whether we can run the LLM directly on terminal devices, like a smartphone. Why deploy it that way? Because if we can run it on a smartphone, for example, we can use it to help students learn. Today, smaller models can already run on devices such as iPhones. So I think there is a lot of room for development here. Sorry for going on at length. This is quite a heavy topic. I apologize for taking so much time.

MC (Translation):
Great, thank you, Simon. Our next question comes from the roadshow platform. Could management brief us on your investments in Rokid and Shuai Ku, as well as your business collaboration with them?

Simon (Translation):
Let me briefly address this. Since we are an investor, I cannot comment extensively. Naturally, we invested because we view them as excellent companies.

Regarding Rokid, you can search online or ask an AI what they are doing right now. I can briefly talk about it from our perspective. When we were discussing how to utilize LLMs in our SaaS services for education, we also envisioned integrating Rokid's smart glasses in the near future. One potential use case is for teachers to wear AR glasses while moving around the classroom. If a student has a question, the teacher could query the AI through the Rokid glasses, with the relevant information displayed on the glasses. There are many potential applications. The Rokid glasses have built-in cameras, which could also capture information for AI applications. We fully expect Rokid to become part of our education offerings going forward.

MC (Translation):
Thank you, Simon.
The next question is also about gaming, where AI integration remains a key area of interest. Could Mr. Lin elaborate on how AI impacts key performance metrics such as user duration and retention, as well as its analytical capabilities? Additionally, could Mr. Lin provide an update on overall gaming trends since the start of the summer holiday and whether you've seen an HoH uptick? Thank you.

Lin Chen (Translation):
Okay. Addressing the first question on how AI impacts key gaming metrics, I'll divide this impact into two categories. one is indirect benefits, the other is direct benefits. For indirect benefits, as mentioned earlier, AI has increased our content output by 10% while elevating content quality. For our flagship IPs, such as *Eudemons* PC, daily user duration increased by roughly 15 to 20 minutes. In terms of seven-day retention, as noted earlier, we achieved a gain in absolute value of 2.8%. For evergreen titles, this represents a substantial improvement. Thus, under the first category, AI indirectly boosts user stickiness and retention by expanding content output and improving quality. This is the first category.

The second category could be summarized as smart NPCs. During H1, we made progress in this area. By introducing AI companions, AI pets, and other AI features, we enable players to interact directly with smart NPCs through text and voice. Following the regulatory updates in early August, our immediate focus is to ensure full compliance. Within the bounds of regulatory compliance, we will do our best to test different types of user-AI interactions. We have observed that interactions with AI can help meet users' emotional companionship needs. Moving forward, we will continue to address players' personalized needs to further drive user activity and engagement. Okay, this is the first aspect.

Regarding trends during the summer holiday period, to provide some additional context, our player base, especially for the *Eudemons* IP and *Conquer* IP, consists primarily of adult users. Therefore, our active user cycles are not strongly correlated with the summer holiday, unlike titles with a larger proportion of minor players. While activity naturally picked up over the summer and maintained a positive trend, there was no drastic surge driven by a new title launch or an increase in minor players. Thank you.

Simon (Translation):
Actually, I'm afriad we cannot detail every single factor here.

MC:
Okay. Thank you, Lin Chen. Thank you, Simon.
Our next question is regarding our education business. How does the company view the recovery outlook for our oversea education technology market in H2 of the year? And, judging from our order on hand, do we see any customer demand rebound?

Simon:
I thought I talked about it already. Actually, we're cautiously optimistic. We are seeing some movement in the US. That's why we are cautiously optimistic. I have to admit, it's actually quite slow in the Middle East, for obvious reasons. I do not expect to see the Middle East recovering in H2 of the year. Europe is actually highly depending on, a couple of countries, one being Germany. So again, I mean, you know, we are cautiously optimistic. I think 2027 will be the year of recovery for us.

MC (Translation):
Thank you, Simon. So due to the time constraint, we are welcoming our last question right now. Our final question is whether management plans to maintain a relatively high dividend payout ratio, and how you plan to balance this with your overall cash flow position going forward. Thank you.

Simon (Translation):
Let me take that question. We already announced our plan at our previous results presentation. We have committed to returning no less than HKD $600 million to shareholders. You can do the math, and you'll know where we stand. That remains our plan, and there has been no change to it.

Wood (Translation):
Let me add a few comments on our cash position. As of the end of June, including some of our liquid investments, we had RMB 1.8 billion in cash on hand. As my colleagues just mentioned, we expect our performance to continue to improve in H2, both in education and gaming. So we are quite confident that we can fulfill the shareholder return program that Simon mentioned, which we announced in March.

Simon (Translation):
We haven't even used up the HKD $600 million yet. Sorry, I'm just joking.

MC:
Thank you. Thanks to Simon, Lin Chen, and Wood.
Time to successfully conclude our presentation today. Once again, thank you for joining us. We wish you all have a great day ahead.