
NetDragon(0777.HK) 2019 Interim Results Conference Call and Webcast

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NetDragon's Management Team

Dr. Simon Leung, Group Vice Chairman and Executive Director
Mr. Ben Yam, Group CFO
Mr. Lin Xin, CEO of Gaming Operations
Mr. Vin Riera, CEO of Promethean
Mr. Garwin Chan, CSO of Edmodo

Moderator:

Dear friends, good morning. Thank you for joining NetDragon Websoft Holdings Limited for the 2019 interim results presentation.

First, 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. Vin Riera, CEO of Promethean; Mr. Lin Xin, CEO of Gaming Operations; Mr. Garwin Chan, Chief Strategy Officer of Edmodo.

Now please allow me to pass the time to Dr. Simon Leung.

Simon Leung:

Thank you. Thank you. Well, thank you for coming on such a nice and cool sunny day that we have. Actually, we were thinking about hosting it at our spaceship this year. But when we found out about the weather, we decided not. I think it's at 35 degrees and 100% humidity. So Hong Kong is not that bad after all.

For those of you who come from out of town, really appreciate you take the time to come here at a time like this in Hong Kong. But being from Hong Kong, I'm sure everything will be better tomorrow.

So today, what we're going to do is I'll take you through the last six months and kind of go down the memory lane a little bit and then kind of talk about our performance. So what I'm going to do is - very quickly take you through the highlights, and I'll pass it to my colleagues, who are actually sitting in front of you. Vin is going to do it in Mandarin this year. That's because he's been taking lessons. And actually, Lin Xin is going to talk about fashion rather than gaming today, the way he dresses. But anyway, all kidding aside, let's go.

I'm going to skip through this. So this is the highlight. We don't have to talk a whole lot about it. That's actually the highlight. Our profit grew over 100% year-over-year. We are pretty happy with that. And then it has continued to be the same theme. It's actually a record year for us. You know the profit is a record high. And actually, revenue is a record high. You know, this is largely driven by our gaming business. So I'm sure you will be listening to Lin Xin very carefully.

And then our Promethean business is to maintain the leadership position in the world. And the other good news is -- actually, Garwin is going to take us through, which is something you guys are very curious about, is actually our road to monetization, with our big community of students and teachers and parents, called Edmodo.

Just very quickly, gaming. Again, I don't need to go through it in any more details. Everything actually grew over 50%. Because of the nature of the gaming business, when you grew that much and everything dropped down to the bottom line, our profit grew even bigger.

And then we continue to do really well with our existing IPs. We also invest into some other IPs. We're driving a lot of that, and we have a very strong pipeline, which Lin Xin will talk about.

On the education side, our business grew, ex Russia. For those of you who are familiar with our business in Promethean, it's actually a cyclical business. Also, on top of that, we have big tenders. So last year, we had the Phase 2 of the big Russia tender, which was in the first half. The Phase 3 is actually what we'll continue to work on. So there's some kind of fluctuation in that. But if we normalize that, we grew 5% overall. Actually, Promethean grew a little bit more. The good news is, actually, we are growing our unit quite a bit, 28% growth (in shipment). Again, we talk about maintaining our leadership. And we launched our new product. We announced the launch in the last event. Actually, we started shipping in Q2 of this year. Actually, the response has been very, very encouraging.

In Edmodo, the foundation for us to move into SaaS model has been late, so we are working very hard. We are launching the first of our series of services. We call it Edmodo Academy, which is all around learning and tutoring. So the first one we are going to launch is a homework help, we call it AskMo. So it's actually quite appropriate because in Edmodo, Mo is our mascot. So we said, "Let's go AskMo." Garwin is going to go through that very quickly.

I talked about getting into China with the right product last event. So I want to report to you at a high level, we started to implement our strategy. Actually, we're executing it. Actually, we're deploying our product in China. Just case in point, we won the first phase of a big deployment in Fuzhou. Actually, it's about USD 6 million, so that kind of marked the first of the big deals that we're going after. We spent a lot of time laying out the channels in China because China is a big place. So you need an extensive and expensive network to go after the market. We're doing that.

And also, we start to kind of look at how we can use -- leveraging our base because we have a lot of 101 PPT users, how do we turn it into a SaaS model? So that's what we have been doing, and we'll continue to invest into China.

Just give you a snapshot of some of the metrics we look at. On the gaming side -- actually, MAU is 10 million, which is very encouraging. We've maintained our DAU. Actually, we improved on that one. (The number of) our current title is around 10 and we are monetizing (them), but we have another 10 plus in the pipeline -- that some of them are ready to deploy and some of them, we are still working on. So we have a fantastic -- I was going to say "wonderful", but somebody uses it way too much, so I won't use it. I was looking at Vin when I said that. So we have a good pipeline of games.

On the learning side, our MAU continues to grow. It's actually 13 million among all of our different businesses. DAU is about 1 million. On the classroom, last time when you saw it, we were in about 1-point-something million classrooms, but we kind of eclipsed that one. We are in over 2 million classrooms now. And I think country will always be like 190 plus because I don't think you can add more countries after 190, because I will challenge you if you can name all 190 countries, I'll buy you a coffee later on.

So with that, I'm going to turn it over to Ben, our CFO. He will take you through the financials, especially how we bridge some of the revenue in education. Okay, Ben?

Ben Yam:

Okay. Well, thank you, Simon. Good morning. I'm going to take you through the financials, and I only have a couple of slides.

Okay. Well, first of all, this is the high-level P&L in RMB. So as Simon said, we have continued to set record high in terms of the revenue. Our revenue grew 8%. But I think what more interesting is the bottom line where in the first half of this year, we grew over 100% year-over-year. And if you look at the absolute dollar value in terms of the RMB 421 million, that's actually more than 75% of last year's entire year revenue. So this year, as you can see, we are on track to a very healthy and very robust growth for the full year.

In terms of -- if you look at the gaming and the education side, gaming, we continue to grow in a very strong manner, over 50% growth. And on the education side, if you look at the dollar value, we decreased by 24%. But as Simon also just mentioned, a lot of that is because of the irregular timing or the seasonality of the tender business. So last year, in the second quarter of last year, we had RMB 400 million -- close to RMB 400 million of Russian tender revenue, which was recognized all in Q2. But this year, we did not have that. And if you look at the Phase 3 of that tender, we actually are working towards that and the timing is going to be later on. So I just want to kind of -- want to point that out. If you take that away, then our education revenue is actually looking at a pretty healthy increase.

So this actually gives you more details in terms of our segmental financial highlights. So first of all, education again, if you take out the Russian tender, our revenue went up by 5% year-over-year. And again, I want to mention that our tender business has been growing very strong. So if you look at our Egypt, our Turkey, our Russian businesses, the discussion is going really well. And I'll let Vin talk a little bit more about that.

So in terms of the core segmental loss for the education business, as you can see, there's a big jump from RMB 158 million to RMB 308 million. I would say that the jump is largely due to 2 factors. The first factor is that the margin of the Russian tender, which was recognized last year but not this year. Again, I talked about the irregular timing for the Russian tender. And the other reason is the fact that we consolidated the full 6 months of Edmodo. So some of you may recall that we acquired Edmodo in the first half of this year -- sorry, in the first half of last year. So last year, we only consolidated 2 months, but this year, we have to consolidate the full 6 months. So if you actually take out those 2 factors, our SG&A for education is actually quite stable.

And there's also the tariff factor as well, but the tariff effect on our segmental loss is actually a lot smaller compared to those two factors that you're seeing.

So on the gaming side, again, 52% growth year-over-year. And I'll let my colleague, Lin Xin, talk a little bit more about that. But I would just say that our increase in revenue has been generated by a broad-based increase in revenue from all of our major IPs. So I'm talking about Eudemons, Heroes Evolved, Conquer Online. So all of those IPs have generated revenue increase. And on top of that, our revenue increase is also driven by kind of broad-based increase in a lot of our major metrics, right? So if you look at many of our major games, the MAU, the DAU, the APA, or the active paying accounts, all showed increase. So I think the revenue increase has been generated by very robust metrics.

If you look at the segmental profit for gaming, it has been in the same pattern. We increased by 85% year-over-year, (with) a lot of operating leverage. If you look at our SG&A for gaming, it's also very stable. You may notice that there is about 60% increase in the sales and marketing expense for gaming, and a lot of that is because of the advertising and promotion that we are doing for our gaming. But if you look at the absolute dollar value, there's about RMB 60 million increase in sales and marketing, but you're looking at above -- over RMB 500 million increase in the gaming revenue. So it's money well spent.

So that's it on my part. I'm going to pass it on to my colleague, Lin Xin, who's going to take us through the gaming business.

Lin Xin:

Thank you very much for coming to the meeting this morning. I will briefly talk about the gaming highlights in the first half of 2019.

For the first half of the year, we achieved very healthy growth in all our major IPs, including Eudemons Online, Heroes Evolved and Conquer Online. Basically, the growth of revenue was driven by the following factors.

First, we have a lot of returning users. Leveraging our brand and IP has been our most important way to accumulate users. That's the core logic behind connecting our gaming business with users. We have updated some of our major gameplays for Eudemons Online and Heroes Evolved starting from the second half of last year, which in fact has proved to be very effective. Besides, we also increased our marketing expenses. We also got a large number of returning users apart from new users. You can see that the MAU of our entire gaming business in the first half of this year was significantly higher than the first half of last year. The returning of old users was driven by our new gaming content and our effective way to reach those old users. We found that the new versions of Eudemons Online and Heroes Evolved have good reputation among returning users, and many of them have come back in groups.

The second driver of our gaming revenue in the first half is our robust content updates. For all of our three flagship IPs, Eudemons Online, Heroes Evolved and Conquer Online, we launched multiple expansion packs. We launched about eight expansion packs in the first half. These expansion packs effectively boosted our revenue. For example, for Eudemons Online, we launched a major version update in October last year and continued to add content in the first half of this year, which pushed its revenue to a new level.

The third driver is that we added some creative gameplays into our games, including some of the most popular gameplays. For example, for Heroes Evolved, we added the gameplay Auto Chess. Auto Chess is a new gameplay derived from MOBA, which was very popular last year. Thanks to this, the number of Heroes Evolved's returning users and active users have greatly improved.

The fourth driver is IP crossover, which we have put great effort on since last year. Now you can see that there are many crossovers in various industries. There are crossovers between different IPs and different brands. We are doing this for our gaming business and it has proved to be very successful. Some new users are attracted to our games and at the same time old users can enjoy a lot of new gameplays and contents.

Apart from the growth of these existing IPs and games, about 12 new games are already in the final stage of development and have started testing. Overseas and domestic testing are being carried out simultaneously.

In the first half of this year, the gross billing of our Eudemons Online IP increased to a record high. The IP has a PC version, two mobile versions and a HTML5 game, which is a micro-client game. So, all games under the Eudemons Online IP grew in the first half of this year. At the same time, the new games under the Eudemons Online IP, such as "Eudemons II" and a new Eudemons HTML5 game, are all in the final stage of development and will be tested in the near future. So, we are very confident of the future development of the Eudemons Online IP.

Actually, we have successfully turned the Eudemons Online IP into a series of game. You can see that under the Eudemons Online IP, we have PC game, mobile game and micro-client game. There are some slight differences in the core gameplay of these games. We always experiment new gameplays in the Eudemons PC game. As each server of the Eudemons PC game is customized, there are different

features in different servers to test players' response. If a test has good results, we will apply those new features into an independent version, which could be an expansion pack or even a new game. For the Eudemons Online IP, we will continue to develop it and invest in it in the future. We will not only develop new games, but also increase spending on marketing, publicity campaigns and promoting user engagement of the IP. We hope to continually enrich this IP and make it become the most influential MMORPG IP in China. From the second half of last year to this year, we have done a lot of campaigns, including the collaboration with Han Geng, a popular new-generation artist, the collaboration with Chinese boxing champion Shimin Zou, and the crossover with the Forbidden City of China, in which we have incorporated a lot of elements of the Forbidden City into our games. Through such campaigns, we can increase the MAU and the number of new users, and hopefully the influence of the Eudemons IP.

For Heroes Evolved, the pocket version achieved satisfactory growth in the second half of last year and the first half of this year. Some new IP crossovers and new gameplays are expected to launch in the second half of the year, so I believe the growth of the IP will be strong in the second half. For example, the crossover with "OVERLORD", a Japanese national IP, and "Rakshasa Street", a popular Chinese IP have brought us many new users, and enriched our gameplays and hero characters. Heroes Evolved is also trying to build an e-sports ecosystem. We have been hosting competition events, which are broadcast on our platform and most of the major live-streaming platforms in China. The number of viewers of our competition events is just second to Honor of Kings. They have increased Heroes Evolved's influence and its users' engagement. The events that we host are amateur competitions, and our company has not tried launching any professional leagues. All players are allowed to sign up for the competitions online. We basically organize one competition event in each half of the year and the engagement so far is very high.

Finally, I would like to briefly talk about our pipeline. We are focused on three genres of games - MMO, MOBA and SLG. SLG is an important category which we will work hard on in the future.

This year we will launch a MMO game called Vows of Heroes (Under Oath), which is an ACGN-style game and will be exclusively published by Bilibili in mainland China and also in HK, Macau and Taiwan. We have set up an IP committee with Bilibili, and hope that Vows of Heroes (Under Oath) can be developed into an important ACGN IP. The worldview and core storyline of the game are designed by us, and Bilibili has helped us to improve the game's artistic style and character portrayal as they have very good experience in ACGN-style products. It's a game which we are rather optimistic about.

One main SLG game that we have is "Heroes of Ages", which is a multi-hero cultivation game combining the gameplays of RTS and SLG. It has already started testing in Vietnam. The other one is "Legends of Ocean", a game with the enduring theme of voyage. It has started testing in the Middle East. For the genre of MOBA, we have "Heroes Evolved Thrones" and "Cyber Legends". "Cyber Legends" is a game with open world and MOBA gameplays. We plan to do a joint test on this game with Tencent in September. Our HTML5 game, "Battle of Giants" is a casual competitive game and is licensed by the "League of Legends" IP as a complement to the big IP. We will publish "Battle of Giants" globally with Riot Games and Tencent. "Treasure Hunt Heroes" is a Roguelike game, a subgenre of RPG which has been very popular over the past one or two years. It's featured with random maps and many random gameplays, so for the players each round of the game is different. This is also a new game type we are optimistic about.

The exact launch time of these new games is subject to the game license approval in China, but "Vows of Heroes" (Under Oath) and "Heroes of Ages" are already in the final stage. Under the game license approval system, a game is first submitted to the provincial department and then it will be submitted to the national department. Currently these three new games are already being processed in the national department and I believe we can get the approval for them very soon. In the second half of this year and even next year, we are confident not only in the continued growth of our three core IPs, but also in the performance of our new games, because our core gameplay design is very fantastic and the testing

performance is nice. So, I hope everyone can follow our new games in the future. That's all of my presentation, thank you.

Vin Riera:

Hi. Good morning. I'm Vin Riera, and I am the CEO of Promethean. I'm going to spend a little bit time -- today talking to all of you about our Q1 highlights and the business. I want to talk about the market landscape in education, talk about our new initiatives, and then wrap up with our outlook for the rest of the year and looking into 2020.

The first half of the year was a very exciting time for us. We launched our V7 Elements product. We end of life of V6, we brought in V7. V7 was significant in a lot of different ways. The highlight was we brought in 3 different product lines in V7 to make sure that we're meeting the needs of the market on a global basis. These 3 product lines aren't necessarily used in every single market around the globe, but used in their position in the markets. They're positioned in a way that the product is in the market where that's what that customer wants to buy. By giving us a broader set of products to sell, it gives us greater reach into the markets.

We had 28% unit growth in the first half of the year, which is fantastic. It speaks to the acceptance of our V7 product, and it also speaks to the interest in our V6 products. We ended the life of that, and we burned down all that inventory. 6% revenue growth overall in our core business. You heard both Simon and Ben talk about our core business and then our tender business. The Russia business did not repeat itself in the first half of the year, but we continue to work on major tenders in Russia and in other parts of the globe. And we expect to talk more about wins that we have in those markets in addition to earnings releases. And then we maintained our market leadership position in education, which we're extremely proud of.

V7. We launched V7. Why was V7 so significant for us? Well, to start with, it's another iteration of product that we have brought into the market, with over 20 years' experience that is designed for teachers. It ships with applications that are in place. The teachers use it on a daily basis. And it has the tools needed for teachers to interact in their classrooms. Aside from having our award-winning lesson delivery software ClassFlow and ActivInspire, every single one of our V7 products is now a connected device. What that means is all of these products can connect to the Internet. We can do over-the-air updates and it allows us to give a different and improved user experience over time to the customers that buy those products. This is a big step for us in not only how we bring our products to the market, but the way that we can continue to engage with our customer base moving forward.

It's one thing for me to talk about the success of the product. It's another thing to look at the numbers that say we had fantastic user growth year-over-year or unit growth year-over-year. I like to look at third parties outside of us, recognizing what we've accomplished with our new product line. In the first half of the year, at a global stage we received the Company of the Year Award, specifically because of our V7 product. That was in Q1 of this year. In Q2 of this year, in our Americas market, at our ISTE event, we received Tech & Learning's Product of the Year award. So super proud of that. Super proud that we had such quick adoption of this product line and recognition and awards associated with it.

In the past, I've talked about the growth of the interactive display market within education. I want to spend a little bit more time on this just to make sure we all understand the opportunity that we have in front of us in education. There're 43 million teaching spaces globally, and there's only 31% of those that have some type of front-of-class device within them or front-of-class -- yes, front-of-class device in them, meaning an interactive flat panel or an interactive whiteboard. What that means is we still have lots of opportunity to put our technology on the walls of classrooms around the globe.

In addition to that, this market is going to continue to grow. And by 2023, we expect that the interactive flat panel market is going to have approximately -- of all the interactive flat panel devices that are shipped, 57% of those are going to be in education market. So education is continuing to grow. We're going to be able to participate in that growth, and we have a product line and a customer base that knows us on a global basis.

The second half of the growth in education has to do with the replacement cycle. We're on a second and third variation with our interactive flat panels. The original technology was interactive whiteboards. If you just take a snapshot and take a look at the US market, there's 1.8 million interactive whiteboards in classrooms within the US market. These are all technologies that are going to be replaced with interactive flat panel technology, which give a much greater and improved use case.

If you look at the opportunity just in the US, and again, I'm carving out just the US as a discussion point, we have a strong embedded base of customers that use Promethean products. They use our ClassFlow and ActivInspire lesson delivery that will convert from interactive whiteboard technology into the interactive flat panel technology that we sell today. On top of that, and another part that I happen to be very excited about, is that as the market leader in this space with a differentiated product, with experience and with a track record, customers that might have bought a competitor's interactive whiteboard seriously consider moving to our Promethean technology. So not only do we have our own replacement cycle, but we have the ability to compete and win for new business within that replacement cycle in the US.

We spend a lot of time talking about education. This is a learning business. One thing that we are very aware of is that there's a huge opportunity in what we consider to be a closely adjacent market, which is corporate. Corporate has been a market for the last few years that has been evaluating interactive technologies in their meeting spaces, but they haven't necessarily moved and begun to buy those technologies. We have seen since 2016 that the growth in these markets -- that this growth in these markets is starting to take off. And there is interest in incorporating interactive technologies into meeting rooms. We've learned a lot over the last couple of years. We've watched the market, and we feel now is the time to enter into it in a meaningful way. We're extremely excited about our ability to participate in the corporate market because we have a core expertise in designing and manufacturing, building and distributing these types of products. We have a reseller base that understands how we work with them, that also sell into corporate so we can leverage our reseller base there. And then we have a strong, proven track record of supporting customers in complex environments in education systems around the globe that we're going to be able to replicate into the corporate environment. So I'm introducing this to all of you today as something that -- we are introducing it and letting you know that we're going to be entering into the market, and we'll have products in the market in 2020.

So overall, for the outlook of the Promethean business, we're going to continue to grow at a healthy pace in all of our core markets. We're also going to continue to compete, and I expect to win large tender businesses like we have done in the past. In the first half of the year, there were not any large global tenders that were awarded. So it was not that we didn't compete and win, but there are large tenders that are in the works right now that we are actively engaged in.

I think the volume that we saw in the first half of the year really speaks to the strong reaction the market has had to our V7 product. And I absolutely continue to see that extend into the back half of the year and well into next year. And we're going to continue to compete and win in highly competitive environments. There're a lot of different competitors in this space. And the reason that we continue to lead the market is because we know how to build and position products for our market, and we've done that successfully in the past. And then also, we're going to start to venture into the corporate space to enter into a new line of business and, therefore, new revenue stream.

Thank you very much. And I'm going to turn it over to Garwin Chan.

Garwin Chan:

Thanks, Vin. So my name is Garwin. I'm relatively new to the company, so it's very nice to meet everyone. It's also my pleasure to share with you what we've been up to and what we've been working on at Edmodo.

I'm happy to say that Edmodo now has more than 106 million registered users globally. Important to know, we are the first mover and the largest player in quite a few really interesting markets. We believe that this international presence and this footprint are really a strategic advantage as we continue to scale up our monetization efforts.

So in terms of our strategy for monetization, it actually builds on what Edmodo does well. So if you look at the left-hand side of the slide, classroom tools, i.e., homework assignments, posting quizzes, etc, that's a core functionality for us. We also have a very robust social network. So we have the world's largest online community of educators and teachers. These core features do really well to drive new users and organic traffic onto Edmodo. So you can see by having more than 100 million Edmodo registered users over the years, that's a testament to how powerful these core use cases are.

Now on top of that, NetDragon is going to build more innovative features. So for example, assessment tools. When I was a student, doing assessments, quizzes was very, very boring. We want to tap into NetDragon's gaming DNA to actually make that learning process a lot more fun and a lot more engaging. So we're launching gamified quizzes and assignments to provide much more social atmosphere for actually doing these assessments and provide more positive feedback for the students as well as for teachers.

Now once we aggregate more information and better understanding as to how that student is doing, how they're understanding that specific knowledge concept, then we can actually introduce or recommend curated content to address their needs. So we'll have smart technology to better match content for a more personalized learning environment within Edmodo.

Now with these features, we actually strengthen that engagement for not just teachers but also students as well as parents on Edmodo and better prepare the platform for areas of monetization. The first one that we have already been launching is for services. Now services also include what we call marketing solutions, which is essentially our version of advertising but is done so in a way that's much more healthy for our mission as an education platform.

So what does that mean? One example of a deal that we recently closed or completed this year is for the US FDA, the Food and Drug Administration. We actually ran a \$1 million campaign with them to fight against e-cigarettes and vaping for young people. So what we ended up doing was build an arts contest, kind of an art poster contest, for students to trade their own artwork, submit it through Edmodo, explaining to other students why vaping is actually harmful for them. So that's a very successful campaign, and now we're in conversations with the FDA to continue a subsequent program with them. Online tutoring services is something that I'll talk about in the next couple of slides. But just know that this is something that we're launching by the end of September, early October.

Teacher marketplace is also a very interesting idea that we've been working on, and it really builds upon the large community of educators that we have. So we want to create a platform that allows teachers to better monetize from the content that they create as well as gives them access to the gig economy. So whether it's for our online tutoring jobs or other kind of freelance or part-time opportunities, we believe that a lot of employers, a lot of companies will be looking for teachers because they are highly qualified.

And then content kind of builds upon what we've been working on for the core use cases. So once we actually know more about the users, we can also introduce some premium content that we can sell for a subscription. So this will be a very interesting element for our platform going forward.

So this is the first product that Simon had mentioned, and that we are launching later in September -- and public launch in October. I think anyone that's been a teenager in the past can probably relate to this product where you're staying up late at night, you're trying to finish your homework, but there's a problem that you're just kind of stuck on. So what we want to introduce is a product called AskMo, which is a combination of AI-assisted self-studying, plus a live tutor, that gives you 10- to 15-minute sessions to really walk you through how to solve that problem. So this could cover Math problems. It could also cover Science, Physics, more of the core STEM subjects. It'd be very helpful for a lot of students. So instead of just giving you the answer, the live tutor actually will walk you through step by step how you can actually solve it, what are concepts that you need to know in order to solve it. And if there's something that you don't understand because it's a live person on the other side, you can actually double click and dive deeper. And also it's important to note that this platform is going to be 100% mobile interface, app-based, which is more relevant for today's world.

Now that first product, AskMo, is actually our product, what we call, the reach product for the mass market. So that's going to be priced around -- it's a freemium model, starting from free to \$50 a month. And once again, this is something that we feel excited and has a lot of people who can also afford this. We're also planning on rolling it out in a very near future, what we call the mid-premium to premium products. So this includes 1 to 4, or 1 to few online tutoring. So think of it as online office hours. We have highly qualified tutors on specific subject matter, as well as premium 1 to 1 online tutoring. And then the online tutoring subject area that we'll be focusing on are core subjects, so once again, Math, Sciences, English, etc, as well as test prep. So it's going to focus on a wide range of ages, from primary school where they can also get concepts for basic Math and English, as well as for older students preparing for their college entrance exams.

And with that, I'll turn it back to Simon.

Simon Leung:

Is it on? Okay. Thank you. Thanks, Garwin. So -- well, welcome to the team. You've been here, for a few months? So a veteran by now, right? So -- okay. Actually, he's been working very hard on Edmodo, among other things. He's also involved in some of the big tenders that we're working on. So I'm sure you'll ask some questions later on, but we -- I'm not going to give out any answers, by the way. Only kidding, see if you're awake.

Anyway, I'm going to wrap up. It's actually -- I want to make an announcement. Actually, the person you met, Vibhu, the CEO of Edmodo, he's going to be retiring. But he will remain an adviser to us, but we have recruited somebody called Susan Kim, who is going to join us early next week. She has a tremendous background. She went to Harvard, both undergrad and graduate school. By the way, same thing for Garwin, but there's a little bit of time gap there. But the reason we recruited her is not because of Garwin but because of her credentials. She started in eBay and then Google, and then she spent a lot of time working with startups. The last 2 startups she worked on, they're all like very famous VC-backed. The last one is actually -- is Greylock-backed, is a community called EatWith. She turned it around and then grew it and then exited. So very happy to have her joining us next Tuesday. So stay tuned for more news from her.

Just to wrap it up. This is really a summary. I think for gaming, you know it better than I do now. So we'll continue what we are doing. On the education side, Promethean side, so this is really a summary of what Vin is going to -- what Vin talked about. We'll continue to also ramp up China (business) -- which is actually quite important. And then we talked about enterprise. Vin and I, and actually Steve, our new VP for

Products for Promethean, actually spent the last 3 days working on that. We are very excited about the prospects. Garwin talked about the online tutoring service.

The last point is actually really more of a teaser for you. So we are planning something, I think, is very exciting for kindergarten. I can't give you all the detail, but the way I will position it is actually is a B2B, B2C and O2O implementation, so actually leveraging all the assets that we have in the company, including Edmodo, including Promethean, including Jumpstart and including our presence around the world. It really gives a very interesting offering to the kindergarten kind of area across all countries.

With that, I think we're going to go to Q&A. And then I think they want me to sit down and shut up while they're setting up.

Moderator:

Thank you, Dr. Leung, Dear staff, please set up our Q&A session. Now it is time for our Q&A session. If you have any questions, please raise your hand, and our colleagues will pass the microphone to you. Before your questions, please also tell us your name and the firm that you are representing. We welcome English questions.

Welcome, management.

Moderator:

Now may I have the first question? This lady, please. Please wait a moment.

Susanna Chui, DBS:

I'm Susanna from DBS. Congratulations for the very good results. Yes. I mainly have 2 questions. The first question is related to the online games. Management did a very good job for the first half. So -- and the update on the revenue guidance on online games in second half or for the full year and also 2020 would be great.

And I would like to know the growth drivers as well. Any plan to launch the expansion pack of Eudemons PC in the second half or 2020? And can you share the exact timeline of the launch of the much-anticipated Eudemons Mobile 2? Will it be in the first quarter or second quarter of 2020?

And the second question will be about the...

Simon Leung:

I thought that was your fourth question already.

Susanna Chui, DBS:

Okay. Okay. That's all for my questions.

Simon Leung:

Well, it sounds like Susanna knows our business better than we do. Actually, we don't give out guidance, I mean, as you know very well. But we are very confident that our momentum in gaming will continue. For other questions I will pass them to Lin Xin.

Lin Xin:

Now in China, all new games need to obtain a game license before they can launch. Currently we are not sure about the game license cycle. The launch of Eudemons II is subject to the game license approval. But our new games would be released in overseas markets as well. You can see that in the first half of the year, we did achieve growth in overseas markets, where we need to develop in our own way. We entered the Middle East and North America markets early but our presence is comparatively weak in other

regions. Now we would think from a global perspective while developing our new games. Apart from some localization, we hope our core gameplays and graphics can suit most of the regions. Regarding the launch date of our new games, in mainland China it's all subject to the game license approval. But the specific rules which govern the game license approval are not made public. Every quarter some game licenses are issued. It depends on the order of receipt of applications as well as the vetting of gaming content. We are experienced in this area as we are part of the vetting committee in Fujian. We are clear about their rules and requirements for content, so don't have much problems in the submission of content. But regarding these new games, including Eudemons II as I just mentioned, and other games, their launch is subject to the game license approval.

Simon Leung:

The problem of game license is not only faced by NetDragon, but is faced by the whole industry.

Lin Xin:

The system of game license approval is fair to every company, including Tencent. We rank high in Fujian Province's gaming industry. But none of the gaming companies enjoys any privilege. Every company is subject to the same regulation.

Simon Leung:

If there's no new game license, people will continue to play our existing games. There won't be any huge impact on us. We don't mention it often, but for overseas markets, actually we do have a game studio in the US, which is JumpStart. Now as we are expanding overseas, we would consider how we can utilize the resources of JumpStart to help us enter the US market. We would also consider how to introduce the US games to the Asia Pacific market.

Moderator:

Thank you very much for your answer. Next question, please. The gentlemen in blue shirt.

Hillman Chan, Citi:

I'm Hillman from Citi. I have a couple of questions. Firstly, on Promethean could you share more on the colors for the new tenders from the emerging markets going to second half?

Simon Leung:

Actually, they're all blue. So it's actually -- it's okay.

Hillman Chan, Citi:

Yes. And separately, for our strategy in China, what are the hurdles that we are facing and how will we go resolving them? And how we should think about the volume of Promethean in China in the near future?

Simon Leung:

Think about the volume?

Hillman Chan, Citi:

Yes, potentially. If we were to...

Simon Leung:

Okay. So why don't I have my good friend Vin talk about the tenders, and then I'll talk about China? Yes.

Vin Riera:

Great. So I'm going to give you some information on the tenders, but I'm going to keep some of it to myself, just because I would rather not have it public.

For those of you who follow how we go after the tender business, we have relationships that we continually nurture in MOEs, which are ministries of education around the globe. When it's time for a country to do a tender, we tend to be in front of that and we tend to help them write the specs for that tender. Right now, we have 3 tenders that we're working on for the back half of the year and into 2020. Exact timing on those and exact sizing on those are not confirmed, but they're in the process of -- the government are in the process of working through the funding on those and nailing it down. I think what's most important to take away is that we're in -- we have a seat at that table. We're meeting with those ministries of education, and we're part of those discussions.

Simon Leung:

Yes. Just to add to it, as I told the people on the panel, 4 out of 5 are actually somewhat very involved in those tenders. So yes, so we are very optimistic about seeing it through.

In terms of China, I can't give you all the details because then we'll end up giving a guidance. So we announced in the last meeting that we are launching, so we are in the middle of doing that. So basically, we're doing two things. One is actually we lay out the channels so we can cover the entire market. The other one is that we are looking at strategic tenders that we can go after. So it's actually no different from what we are doing outside of China. So it's something that we do know how to do well. So that's why I mentioned about the Fuzhou tender. It's the first phase of the implementation of putting technology in all the schools in China. So we're going to wrap it up in the next few months. So the big impact will be in 2020 from a revenue and profit standpoint.

Hillman Chan, Citi:

Thank you. And just one quick question for Edmodo. As we are going to roll out the 1:1 and 1:4 tutoring soon, how should we think about the competition? And our differentiation in our products and distribution versus the existing products in there? Thank you very much.

Garwin Chan:

That's a very good question. So online tutoring is certainly a competitive market in Asia. I think if you look at a lot of overseas markets, including the US, it's a more fragmented environment. I think something that really differentiates what we're trying to roll out with Edmodo is the fact there are so many teachers on Edmodo. So the teachers can actually act as 2 functions. One is they could be a very key influencer on our behalf. So to the extent that their students need additional study habits or need additional study help, they can recommend our tutoring services as well. The second function, and this also ties into the teacher marketplace that I was talking about before, is that our teachers could also be qualified tutors on behalf of these students as well. Maybe not for their own students within their classrooms, but for other students. And because it's online, we can easily facilitate that.

I think another thing that we're looking to differentiate our services on the technology side. So given that we have such a large R&D team, not just in China, but also in the US, working on really interesting technologies. So for example, for photo -- sorry, for our first product, AskMo, part of the feature there has a photo bot, so it can actually recognize your handwritten question and kind of turn it into a form that the tutor can very easily process and understand what you're trying to solve. That type of AI technology, I think, is quite unique.

Secondly, we're also working on some interactive white boarding capabilities. So whether you're on your tablet or your PC and then a tutor might be on his phone, he can still drop the equations, help you go step by step. So these are all things that we're working on from a technology standpoint that could really help us stand out.

Simon Leung:

Well, let me add to it. I think a different angle to look at it is that it is competitive when you look at the individual market like homework help, very competitive. 1:4, not as much, but a lot of companies are addressing part of the triangle rather than the entire triangle. But we are doing everything. So what we can do is actually we can package the services rather than just saying, okay, for [\$9.99], you get some questions. We can really package it and customize it to the student's needs. So because -- don't forget, we have this big student community, and they've been interacting on it. So we understand what they want and what they need. So we can kind of package the individual services and say, okay, maybe for you, the better one is to subscribe to the mass service, the homework help plus maybe 2 individual sessions. So we are the only one who can do it under the umbrella of Edmodo Academy, while everybody, if you want to subscribe to other services, number one, you have to do it yourself; and then you have to subscribe to 2 different services. So I think that's a big differentiation from my standpoint.

Garwin Chan:

Sorry, and then one more quick note, just because Simon reminded me, is another big advantage that we have is on a go-to market. So Edmodo already has millions of students in our platform, actively enrolled in class, we know their subject matter, we know how old they are. Even for AskMo, we're going to have the same single sign-on. So you can just simply take your Edmodo user credentials and register for the AskMo app. So that's a big advantage that we have in terms of access to understanding where that student is as well as how do we actually get to them so that they know about our product.

Simon Leung:

I think the... actually really, we try to customize or personalize the learning.

Moderator:

Thank you, management. And our next question, please pass the microphone to the third – the gentleman in a white shirt.

Jeffrey Chan, CLSA:

I'm Jeffrey Chan from CLSA. Congratulations on the very outstanding first half result. I only got 2 questions regarding Promethean. I would like to ask what is the life cycle of the Promethean and how would the company do to the old version of Promethean?

Vin Riera:

So I can answer the first question. I might need a clarification on the second question. So the first question is life cycle of our products. Yes, our products come with standard three-year warranties. You can extend into a five-year warranty. We find at the end of 5 years, it's hit its useful life. The products will continue to work, but oftentimes, the technologies that integrate with the front-of-class device would warrant a reason to change. So we think about a useful life of approximately 5 years on that.

The second of your questions, I'm not sure I understood. Can you repeat that?

Jeffrey Chan, CLSA:

How would the company do to the old version of Promethean? Would it be like selling at a discount or would customers still do a tender on the old version of Promethean?

Vin Riera:

So when customers have... yes. So that's a great question. That really depends, and it depends on the type of market. It depends on the -- not the type of market, the geography and what the buying behavior is. Oftentimes, they will bring their new buying decisions to tender, and they will do RFPs on that. But if they're a Promethean customer, oftentimes, they incorporate things like ActivInspire use cases or use cases specific to Promethean. So the bid is aligned. It's almost written for us.

Simon Leung:

Vin, I think he's talking about the replaced product. I think that's what he's saying. So if, let's say, Miami-Dade like upgrade their older technology, what do they do with their old devices or whatever?

Vin Riera:

It's recycled. Yes, the old devices are recycled.

Moderator:

Thank you for your questions. Any questions?

Winston Chu, Hinrich Foundation:

Winston Chu from Hinrich Foundation. Nice to see you guys have more comfortable chairs this time. So on ActivInspire, right, last time you guys mentioned that with ClassFlow and ActivInspire, you guys were kind of doing integration given that the teachers seem to prefer using ActivInspire. So I just want to understand what form that has taken and what the progress on that is.

And then with the new ActivInspire Elements series, I'm just trying to understand, given the design superiority around the product, have you guys been seeing better engagement on the ActivInspire software from the teachers' app from the new teachers who are using the Elements product.

And then finally, on the meeting room opportunity you're talking about, I'd like to understand kind of how you guys think about, again, the software side of it, where you have to -- how much of it do you have to build anew? How much can you adapt? Whether you have a separate team for it? And if you do, then what does that do to your profit margins going forward?

Vin Riera:

Yes. Okay. So let's start with ActivInspire and ClassFlow. And I think V7, our Elements Series, speaks to how we're starting to incorporate this into the same story. Users of ActivInspire and users of ClassFlow are very passionate about their use cases and the materials that they've created within those systems. What we've recognized, though, is there are certain applications that both of them have that are common, that we now incorporate into the panel in the form of an app, right? So there's ways that we can take use cases out of both and create it into an app on the panel that gives both users a common experience. And therefore, in many ways, a better experience.

As far as building on that and then understanding the adoption of it, V7 allows us to incorporate some telemetry so we can understand how that panel is being used and how much time that our users are spending on certain applications. So that's important for us for a couple of reasons. First is to understand actually how much time someone is engaging with a panel in a certain way allows us to steer our investments to creating better user experiences that way. Also, where we see them toggle between use cases, that helps us understand where we need to create dependencies between the products. So I would say that we've made considerable progress in combining the ActivInspire and the ClassFlow user bases together.

As far as the corporate space, there's a couple of different ways we can go at this. One is to build everything ourselves from the ground up. Quite frankly, that's going to take too long, and I don't think it's entirely needed. I think there's some core software applications that we're going to be able to license, and there's ways that we can bundle them and do our own development to customize it to get a pretty robust user experience in a collaboration room or in a meeting space. So for us to get into that market is not overly heavy on investments nor would we have to expect long lead times to get to that market because we wouldn't be able to come up with a solution to get in the market quickly.

Simon Leung:

Yes. I think our direction is actually is a very meaningful way for the users. I think that's the most important. Because when you build your own software, it's actually not realistic to ask a lot of people to change their workflow, right? So our goal is actually just so they can maintain their own workflow, but at the same time, we add value on top of it. So for example, like one organization could be using a certain software, another organization using a different set. If you want both of them to move to a new set that we've developed, that doesn't make a whole lot of sense for them. So our goal is actually, in addition to the value that we have which is all around collaboration, to make it seamless for those guys, right? So one can talk to the other without changing anything, but also take advantage of the capability we put into our system. So that's our goal and that's our plan. So we are excited.

Moderator:

Thank you for your questions.

Eric Qiu, CCBI:

Under the current situation of the gaming industry, the company's gaming business can still maintain over 50% growth. As a company with a classic IP Eudemons Online, how far can its gaming business growth go further before hitting the ceiling? How long can this high growth rate be maintained? As mentioned just now, most of the growth in the first half of the year came from returning users, can these returning users continue to drive the growth of the business in the next two to three years?

Lin Xin:

This is a question we get asked a lot. Because the cumulative users of Eudemons Online and Heroes Evolved are of a large scale, people are concerned about the overall market and what the future holds for our games. Mobile games have actually driven the popularity of gaming entertainment. Many people were not used to play games, and we thought that the core user base of games should be 15 to 34 years old. However, in the past few years, because of the development of mobile games, the age range has become 15 to 50 years old, and the gaming population has become very broad. Last year, we launched a cross-platform version of Eudemons Online, which is a mobile version that shares data with the PC version. And in the cross-platform version, players can experience most of the content of the PC version. So since last year, we have seen a huge increase in user activities. Especially for those returning users, they got a different experience in playing our cross-platform version. It's more convenient than the original PC version and it can fill up their fragmented time. In terms of growth in the next two to three years for our Eudemons Online and Heroes Evolved, we look at it this way. First, in terms of PC game users, although the size and users of the overall PC game market are shrinking, the annual rate of decline is relatively low, and a part of the users still get used to using PC. In terms of user composition of Eudemons Online, most of the users are above 30 years old. We have done a lot on user engagement. It's hard for these users to learn new gameplays. Classic games have become where they continue their gaming habit. That's why Eudemons Online can be so stable and even continue to grow. We think that in view of the life cycle of these core users, it can be foreseen that they will continue to play our game. They form a very stable user base for us. For the growth part, we've been saying that since the year before last, we've been doing series extension. It means that apart from PC games, we have been expanding into new demographics in many new categories of games including web games, mobile games, micro-client games and H5 games. Each of them has different gameplay. We are looking at how the whole IP series will evolve in the future, rather than relying entirely on PC or mobile games. That's why we will continue with the series extension of our games and also continue to update our product content. Take Eudemons II as an example, it has expanded and upgraded the content of the original Eudemons world through the integration of open world elements and great improvement in graphics. I think it suits our old users well. Once the game is released, a lot of old users would return to try it. On the other hand, it will appeal to new generation users. So it's an important direction for us in developing existing IPs, content update and series extension. I believe that old PC users are still very stable because, as mentioned earlier, we also find that the overlapping between our users and those of other games is relatively low, about 5%. They would try some other casual games, but hardly any hardcore games.

Eric Qiu, CCBI:

Just one more question for Promethean. What's the negative impact of the China-US trade war, tariff things in first half? What the situation would be in the second half for the negative impact?

Vin Riera:

Yes. So the tariff has been active in the news, to say the least. I don't have any visibility into what will happen or what will change, because it seems to change constantly. It's something...

Simon Leung:

Like every hour?

Vin Riera:

Yes. It's something that we're extremely aware of and something that we talk openly with our customers in the market. We did have -- we had a tariff impact in the first half of the year. We did not see buying slow down as we saw by the sheer number of units that we're able to move in the market. But it's an open discussion. Obviously, we have a couple of options with the tariff. One is to increase our prices to maintain margins. That's certainly something that we'll constantly consider.

Another thing is we work very closely with our providers and help them understand the stress that we're under as an impact of a tariff and work with them to lower our COGS. But yes, it's an open, active discussion in the business on a daily basis.

Simon Leung:

So just to be clear, the tariff will impact the US market, right? But we are a global company. So it's actually the point #1. Point #2 is actually, I mean, we are really passionate about education. So, so far, we are consciously not passing the cost onto the customer because we don't want them to suffer, because this is really impacting the next generation. So Vin and his team have been looking at that. So hopefully, we can resolve that problem so we don't really have to pass on the cost to our customers. So that's what we'll do.

Moderator:

Thank you for your question.

Aily Yang, GF Securities:

I'd like to ask Dr. Leung, because I know that the company has invested a lot on education. And we also know there are some monetization strategies in the second half of the year. I'd like to know the prospects of those education products' revenue. Are there any goals in this front? I've been following your company for many years, and I really hope that there will be some improvement in the profit of the education products.

Simon Leung:

Yes, education is a long-term investment and you won't see return overnight. We see it as a long-term investment. We do have strategies and long-term goals. Because we don't provide guidance, I'm sorry I can't give you any specific response.

Garwin has just said a lot on this. We are already one of the major players in the market and we have done a lot of work for online tutoring. It's not just one-to-many or one-to-one homework tutoring. The other one is teachers' marketplace, and we will also work on content. At Promethean, we will continue to improve it and maintain stable and healthy growth.

Aily Yang, GF Securities:

I'd like to ask Mr. Lin. We've talked about a lot of new games, and some of them are at the testing stage. Do any of them stand out at this stage and probably have higher gross billing than others?

Lin Xin:

In the gaming industry, the data obtained after the game is launched often turns out to be different from the testing data. We have a lot of cooperation with Tencent and we've seen some industry data development. So far our game Vows of Heroes (Under Oath) has had good performance and this time we have deep cooperation with Bilibili. Now we are still at the fine-tuning stage. In fact, the requirements in terms of testing data for new games in the market now are rather demanding. These include next-day retention rate, which we aim at above 40%, and also payment ratio. Besides, our game Battle of Giants under League of Legends has already started testing on mobile QQ as well as the League of Legends community platform, and the performance is quite nice. But they need the game license approval before they can officially launch. Of course, those two games I mentioned before performed well in testing, and our SLG game under Heroes Evolved also did well in testing in Vietnam. In fact, the game license approval system has one advantage, which is allowing more companies to develop better games. The industry was rather impatient before, with products aimed to recoup costs as soon as it is launched. As Simon mentioned earlier, our existing IPs have very positive growth and I think they will still grow steadily in the second half. So we're not under a lot of pressure financially. We will differentiate the products and improve the gaming experience in order to make the performance data better. At the moment we've actually got the data which make us feel there are opportunities and acceptable. For example, for SLG games, I can give you a guidance. Basically, this kind of product can achieve RMB 50 million in monthly gross billing in overseas and China.

Simon Leung:

We've talked a lot about Eudemons Online and games that are under development. But we didn't talk about Conquer Online and Heroes Evolved. Actually, these two games had a very good performance in the first half as compared to the same period last year. While we have Eudemons Online as our flagship game, other games also perform well.

Lin Xin:

In fact, now the concentration of gaming industry is still very high. The reason why we think IP and branding are very important for us to invest in is that in the future, IP is the real entrance to the 5G or cloud platform. It's because all the games are competing on the same screen. Like Heroes Evolved, due to the scarcity of new games, its mobile version still got 2-3 million new users every month, which few people know. Indeed, our retention rate is quite good. Matthew Effect is very obvious in MOBA games. The market share of Heroes Evolved is indeed smaller than Honor of Kings, but our user base is very stable. Many users play Honor of Kings as well as Heroes Evolved, but their playing partners are different and the gameplay also varies. Gameplays like Auto Chess and PVE are things we can do to differentiate, and our users are very stable.

Simon Leung:

Shall we give the chance to some other people?

Steven Nie, Kingsway:

I'm Steven from Kingsway. I have 2 questions on Promethean. The first one is about product mix and ASP. As we can see on Page 24, we have 28% unit growth, but 6% revenue growth. So what's our product

mix like and what's the ASP for each model? And the second question is about trade war. As I understand, we have different models subject to different tariffs, like 10%, 25%, 30%. So what's the different tariffs on different models? And if we are not going to pass the cost to our customers, how do I mitigate the risk?

Vin Riera:

Yes. So let's talk about the product mix first. That was the first question that you had. I think the first half, well, first, I should say it's important to understand that the heavy buying season for education is really made through September, right? So we're -- there's a cutoff point that happens. So to look at the overall ASP, in the beginning of a buying season, it's a tough thing to do and I wouldn't say it reflects the true nature of what's happening with ASP in the marketplace. It's too early.

But that being said, let me just give you a couple of things to think about. In the first half of the year, we "end-of-life" our V6 product and ramped up our V7 product. So the first thing to keep in mind is we wanted to make sure that we didn't carry inventory. And on our V6 products, we were willing to sell some of that to get it out of our inventory profitably, but potentially at a lower ASP than we would have if it was our core product.

Also, certain parts of the world that buy an 86-inch mix have delayed their purchases because of that buying season, right? So we're still within the buying season. But we saw less 86 inches in our mix during that time period. I wouldn't make the assumption that, that means that the 86 is not in demand, I would just say it's around the cycle of funding and when people are buying during that time period. So I think that speaks to -- I'd say those are the reasons that speak to the lower ASP.

And then the other thing, too, is if you take a look at the Russia order from last year, Russia was all 86. So that was our premier 86-inch custom product at a significantly higher ASP. So I don't look at the ASP and have any flags up around that personally at this point.

Relative to the trade war, I think we talked about that and where our products fit into the mix. The US is only part of where we do business around the globe. I mean, we operate -- I think the last count was 159 countries for Promethean that we operate in. The US is certainly a large market of ours, but one that is not all of our business. And right now, the buckets that we're in are in the lower trade dollar buckets, or the lower tariff amount. So our products are being hit at the lower tariff amount. There is exception process and exclusion process, and I can assure you that us, and along with everybody else in this space, is working through that to see what kind of waivers and exclusions that we can get. And that's an ongoing effort. But I wouldn't say that we're in a position that's any different than any other competitor in this space operating in the United States.

Moderator:

Thanks.

Kim Pao, ROCIM:

Vin, I just have a follow-up question on Promethean in Russia. Given the fact that we actually operate in so many different countries...and I guess, for local officials, when we enter into tenders, they tend to think of everything in terms of local currency, not in US dollars...so how -- when we go into a tender, how do we compete locally when currency fluctuations can actually mean a great deal to our margins?

Vin Riera:

Yes, that's absolutely part of the discussion. So we have -- we do business outside of the US in US dollars. But we take into account, the type of currency on every deal, whether it's -- it doesn't just need to be a tender piece of business. Some of our resellers, we have agreements with in a fixed currency and fixed exchange rates. So we try to protect ourselves against that.

Kim Pao, ROCIM:

For example, Russia. In our second tender for Russia, given the fact that ruble is different now, when we get into a discussion with the Russian government, would our margins be slightly different this time?

Vin Riera:

So maybe just generally speaking, some of our larger tenders, we've done in US dollars. Yes. So we negotiate with them. Just because it's not in the US, doesn't mean that we won't do a deal in US dollars, and we'll agree to do the deal in US dollars. So for Russia, in particular, we did that deal in US dollars.

Simon Leung:

Actually, we are very careful on dealing with local currencies when it fluctuates so much. So a lot of tenders that we do actually is all around US dollars to kind of protect ourselves.

Moderator:

Thank you for your question.

Feiya Zhao, Haitong International:

This is Feiya from Haitong International. And I have 2 questions. First, about online games. The growth in mobile games beat expectations in the first half of the year. Is it mainly from existing games or new games? Excluding new games to be launched in the second half of the year, will the growth momentum continue in the second half?

My second question is about Promethean. You have already started your expansion in the China market and already have a project in Fuzhou. So I'm wondering, like, do you have any other plans in other places in China? And what is our pricing strategy? Because for some local providers, they have lower pricing than yours. So what's your strategy to differentiate yourself from others?

Simon Leung:

Why don't I take that? So maybe I didn't say it clearly in the presentation. So when we expand, we don't only expand into Fuzhou, because it is only a city. We are laying out the nationwide channel network. The point on that one is like we're looking at the entire market rather than just a province. Of course, I mean, we are in Fuzhou. So that's the closest we have. So we have early success. That's explainable.

And we never go down to the very, very low market because that's not what we do, because we have our own brand name, we have our software and all that. So we are really aiming at -- we give the best value for the money they pay. So I think the market in China is going to move up market a little bit because it's actually, after all the big tender, which is the mandate from the government, they are looking at upgrades. So I think with the new V7 and with the software that we have, that's also tied into localization. So we have some software that we localize and really designed specifically for China, for example, 101 PPT, which is being used by how many millions of users now, 101 PPT...

Garwin Chan:

101 PPT, roughly about 6 million.

Simon Leung:

Yes, 6 million. So those are the software that a lot of the teachers are used to. So when we put it into our system, it actually provides more value.

Moderator:

Thank you for your question.

Ben Yam:

Our games will still maintain a relatively good growth momentum in the second half of the year. But we grew very fast in the second half of last year, resulting in a relatively high base. But we will still maintain a relatively substantial growth.

Simon Leung:

Just now you asked about mobile games, right? Indeed every quarter, the growth for our mobile games was very impressive.

Ben Yam:

Yes, growth of our mobile games outpaced the growth of our PC games in the past, and we should maintain it in terms of growth rate.

Moderator:

Next question.

Mianlu Zhao, First Shanghai Securities:

I'm from First Shanghai Securities. There was the core revenue which excludes the Russia bidding -- or Russia tender. Do you not include revenue from emerging markets in your core revenue? I'd like to know about your market positioning. A lot of people expect that you are penetrating into new markets. What would be your core markets?

Simon Leung:

Sorry. Perhaps, let me repeat. When we look at our Promethean business, there are 2 parts: first, the core business; second is the tender business. It's not about new markets. For tender business, it's whether you win it or you don't. So when we look at the Promethean business, it's better to look at the core business. Because for tender business, it's difficult to forecast. It's cyclical. And it means that every month or every quarter or every year will not be the same. So if you look at our Promethean business, it's better to look at our core business.

And for tender business, we have already completed the second stage, and the third stage is starting. And so it doesn't mean that the results will come out in the same month every time. So if you look at our Promethean business, you better look at the core business and exclude the tender business. But then it doesn't mean that we're not doing the tender business. It's just more accurate if you take into account the core business only when comparing our performance. And in our presentation, we have a very important point that is -- we are very excited about the emerging markets. That means we definitely will try to go into emerging markets. For instance, in Africa, we already started tapping into some new markets there, and also in some other places and countries. So please do not misunderstand that we will not invest in emerging markets.

Mianlu Zhao, First Shanghai Securities:

All right. If that is the case, can you give us some outlook for the entire global markets?

Simon Leung:

Well, we have mentioned many times that -- in our previous announcement, we will enter the Chinese market. And now we already told you that we have made some progress in the Chinese market. We have already laid down the channels in the Chinese market, and there are some new projects going on,

especially in Fuzhou. And in the coming months, we will continue to execute our strategies on the mainland market and it will have bigger impact next year.

Vin, you want to just summarize what you said earlier that we see a strong second half and next year?

Vin Riera:

Yes. So back half of the world, rest of the world, excluding US, right, the question? Lots of activity in the core markets that we operate in outside of the US, North America, lots of activity in the Middle East that we're seeing. And there's also parts of Africa that we're working on in active engagement as well as Asia and Southeast Asia. So there's not really any market outside of the US that is an obstacle for us.

Moderator:

Any questions?

Simon Leung:

Okay. Well, thank you. Let me -- well, please allow me to thank you for coming one more time. And let's kind of summarize. We are very confident of our business in the second half of the year, both in terms of gaming and in terms of education. For education, actually for Promethean, we are even more excited about next year because we have executed our China strategy. We'll see an impact next year, and also our entrance into the enterprise business will kind of give us further growth.

So with that, thank you so much. So we'll see you in another 6 months. Thank you.

Moderator:

Thank you, management.