

ChinaCache 2013Q4 Earnings Call

Thursday, 13th March 2014

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Operator: Hello and thank you for standing by for ChinaCache's Fourth Quarter and Unaudited Full Year 2013 Earnings Conference Call. At this time all participants are in a listen-only mode. After management's prepared remarks, there will be a question and answer session. Today's conference call is being recorded. If you have any objections, you may disconnect at this time.

Now, I would like to transfer the call to Ms Edith Kwan, Investor Relations Director of ChinaCache. Edith, please proceed.

Edith Kwan: Hello everyone and welcome to ChinaCache's Fourth Quarter and Full Year 2013 Earnings Conference Call. We distributed our earnings release earlier today. If you have not received a copy, you can find it in the Investor Relations section of our website.

Today you will hear from Song Wang, Founder, Chairman and Chief Executive Officer of ChinaCache; Dr Ken Zhang, President of ChinaCache; and Ms Jing An, Acting CFO of ChinaCache. There will be a question and answer session following management's prepared remarks.

Before we proceed, please note that today's discussion will contain forward-looking statements made under the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. Potential risks and uncertainties include, but are not limited to those outlined in our public filings with the SEC. ChinaCache does not undertake any obligation to update any forward-looking statements except as required under applicable law.

Our earnings press release and this call includes discussion of certain unaudited non-GAAP financial measures. Our press release contains a reconciliation of the unaudited non-GAAP

measures to the most directly comparable unaudited GAAP measures and is available on our IR website.

As a reminder, this conference call will be recorded. In addition, a live and archived webcast of the conference call will be available on our IR website. I will now turn the call over to our CEO Mr Wang, who will make his remarks in Chinese and then I will provide an English translation.

Song Wang:

早上好，感谢大家参加我们2013年第四季度暨全年的电话会议。2013年公司实现了稳健增长的一年，蓝汛作为国内CDN的行业的领导者，我们在2013年庆祝了公司成立的15周年，我们在2013年第四季度，以及全年收入再创历史的新高，2013年，在财务和运作方面，我们的业务均前进了一大步，公司在ERP以及CRM平台建设和引进人才和移动网络方面，做出了重要，做了重要的投资。这一战略，对公司的业绩增长起到了支持的作用，帮助我们成功获取了新的企业客户，促进了公司移动互联网等技术的革新，同时帮助我们拓展海外业务，尤其是与运营商的合作。

Edith Kwan: Good morning, everyone. Thank you all for joining us for our fourth quarter and full year 2013 conference call. 2013 was a year of robust growth for our company. We celebrated ChinaCache's 15th anniversary as the leader of China's CDN industry and our revenues reached a record high for both the year and the fourth quarter.

During the year we considerably advanced our business both financially and operationally. We made key investments in our ERP and CRM systems, operations platforms, talent and mobile Internet. This strategy has supported our growth and enabled our successful acquisition of new enterprise customers, mobile internet technology development, and our expanded international operations, especially with carriers.

Song Wang:

透过我们的网络，我们现在每天服务超过了三亿三千万个互联网用户，传送超过26亿个网页，中国蓬勃发展的互联网行业继续支持公司的增长。我们很高兴地向大家汇报，2013年第四季度我们取得了非凡的业绩，公司第四季度的净收入超出了我们的指引14%，达到了人民币3亿3千937万元，比去年同期增长了50.8%，比上个季度增长了23.2%，第四季度的毛利率也在持续地增长，同比增加了0.5个百分点，达到了31.6%，而整年的毛利率也有所提升，达到了31.4%。另外公司的客户群，目前也在稳步地增长，公司第三季度的客户数为1589个，而第四季度的客户数，竟升到了1697个，增加了6.8%。

Edith Kwan: Today we are serving more than 330 million desktop and mobile Internet users and supporting more than 2.6 billion page views taking place daily through our network. China's thriving Internet industry continues to support our growth. Our net revenue for the fourth quarter exceeded the top-end of our guidance by 14% reaching RMB339.4 million. This represents a 50.8% year-over-year increase and a 23.2% increase quarter-over-quarter.

Gross margin in the fourth quarter also improved year-over-year, growing 50% basis points to 31.6%. Gross margin in 2013 also improved from 2012 and reached 31.4%. Additionally, our customer base is growing at a healthy pace, and increased by 6.8% in the fourth quarter to 1,697 from 1,589 in the prior quarter.

Song Wang:

企业客户是公司的一个重要战略，我们在过去的一年取得了显著的成就，随着越来越多的传统企业迈向互联网的运营和业务发展，蓝汛在这方面的角色将更为重要。

Edith Kwan: An important part of our growth strategy has been to amass enterprise customers, and we have made a great deal of achievement toward this goal in the past year.

We expect to further cultivate this expanding business as we continue to deepen our relations with traditional enterprises and assist them with the transition to Internet adoption for both of their operations and business.

Song Wang:

移动互联网领域的重要性，也在正不断地提升，2013年，我们不仅挖掘了很多重要的手机应用商店的客户，同时还见证了其流量的激增，某些客户的流量在2013年翻了好几倍。我们也成功地服务了许多热门的APP，在其流量爆发式增长的过程中，尤其是对其进行了强大的技术支持。随着移动互联网的快速兴起，运营商正面临着将语音的业务为主，转向以数据传输业务为主。加上去年年底的4G牌照的发放，我们预期4G的商用将会使流量成倍地增长，这促进了运营商与我们的深入探讨，如何共赢移动互联网市场的合作模式，其中包括在2013年的第四季度，我们成功中标，获得了中国移动签定的视频业务CDN技术支撑的框架协议。蓝汛为上海移动视频基地提供CDN高速缓程服务，提升了客户视频业务的分发能力，提升了终端客户的手机视频感受。今后，我们双方将继续在此方向的加强合作，希望能在视频动态的更多的领域里，更深入地合作。我们预期运营商将成为我们重要的业务好伙伴，除了中国移动，我们同时已经和中国电信、中国联通在商讨新的合作模式，我们希望很快就有重大的消息，将与大家分享。

Edith Kwan: The mobile Internet space has also become an important and rising component to our customers and end-users. We have not only welcomed more major applications starts as customers, but have also seen the traffic surging over the past year, with some customers' traffic spiking several folds in 2013.

We have also started serving many popular apps and supported them throughout their growth. Carriers are being influenced by a rapid shift in demand and voice transmission to data transmission and the issuance of 4G licenses last year is expected to trigger additional mobile Internet traffic.

These dynamics are driving carriers to seek our cooperation in order to capitalise on new business opportunities brought on by the mobile era. As an example, in the fourth quarter 2013 we secured new business from China Mobile and signed a MoU to provide CDN at operation services for their media hub in Shanghai to enhance the mobile reader experience of end-users.

This successful cooperation also imparts an opportunity for us to work together on future video and dynamic content generation needs. Carriers are becoming important business partners for ChinaCache. In addition to China Mobile, we are also in discussion for potential innovative partnerships with China Telecom and China Unicom and we will soon be making announcements on this front as these agreements are finalised.

Song Wang:

在宽带中，宽带中国政策的推动下，宽带用户的增加，无疑会增大互联网的需求。但是，宽带的普及，只能解决最后一公里的网络传输的问题，而在优化中间一公里的网络传输方面，仍然需要我们的协助。根据我们第四季度的中国互联网报告，中国互联网的平均速度，还有着忙时和闲时之间巨大的差异，达到了35%，巨大的忙闲时的差异，代表着很多内容还没有实现本地的服务，需要跨省、跨运营商去获取，这延缓了传输的速度。蓝汛致力于改善互联网用户的企业，我们现在正在北京铺设新的CDN网络提速，预计如果效果满意的话，我们将把这一成功经验，继续在其他城市复制，让用户、让运营商和蓝汛，三方受益。

Edith Kwan: Thanks to our broadband strategy, there are a lot more households in China that can now enjoy broadband Internet experience and will surely boost Internet consumption.

However, this strategy only takes into consideration enhancing the large amount of Internet speed. According to our China Internet report for the fourth quarter, most regions in China still experience a significant connection speed gap between the peak and off-peak hours. On average, the gap is as much as 35% across the whole country. These connection speed gaps indicate that the content is not being hosted locally and needs to pass through other operators and other provinces which result in notable delays in transmission speed.

ChinaCache is dedicated to creating solutions to improve the Internet speed in the immediate mile so as to improve entire user experience. We are now currently rolling out our CDN services for Beijing and we look forward to provisions that enable us to expand to other provinces where we can implement our services that benefit the end-users, the carrier and our company.

Song Wang:

除了和技术层面提高互联网的速度，我们也在改善中国整体的网络环境方面，发挥着战略性的作用。2013年11月，我们在这一方面迈出了激动人心的一步，我们与工业和信息化部成立联合实验室，在这国家政府合作的项目中，我们将充分利用自身的网络资源以及专业的知识，研发下一代CDN和其重要的互联网技术，如移动互联网、大数据和云计算等。在云，云计算方面，公司也准备在今年加大投入，力争打造和优化私有网络，私有、私有云和公有云的建设。我们最近已经完成了我们公有云的升级，为了进一步大规模的推广云产品，打下了坚实的基础平台。同时，通过对公司CDN业务及时架框支撑系统的全面梳理，统一资源的采购，统一资源的调度，从而降低公司的运营成本，提高公司的运营效率和利润，完成私有化云的路线图，为本年度后续发展CDN业务的全面云端化，做好铺垫的工作。

Edith Kwan: In addition to our work to improve Internet speed on a technical level, we are playing a strategic role in improving the overall network environment in China. In November 2013, we took an exciting step in this direction and set up a joint laboratory with the MIIT. This is a cooperative effort with the government in which we will use our network resources and expertise to research and generate ideas for the next generation CDN and other important network technology developments, especially in the mobile Internet, tech data and cloud computing areas.

For cloud computing in 2014, the company is committed to expand both our hardware and software engineering efforts to initiate and improve our internal cloud adoption and external public cloud offering. We have recently completed the upgrade of our public cloud infrastructure with a new platform to provide better performance with durability and scalability for our customers.

In addition, through the integration of our CDN resources, technology infrastructure and support systems, we will be able to lower our operating cost and increase productivity through the adoption of our private cloud. The completion of the initiative will be an important operational milestone this year.

Song Wang:

我们在2013年的快速增长表明，我们有能力实现我们对未来目标的规划。随着大型互联网公司的需求的持续增加，我们将会继续集中精力，在移动互联网、视频ODD、电子商务等领域的技术发展，加上云计算的使用推动，CDN流量的增长，以及运营商的深度合作，这些均是强大的市场推动力，也是蓝汛不断前进的发展动力。我

们对市场的前景继续保持在乐观，同时在接下来的一段时间里，我们会集中精力，改善自身的运营和交互的能力，以及公司内部的协作能力，以做好准备，来迎接今后的黄金市场的黄金的爆发的到来。

Edith Kwan: Our rapid growth in 2013 is a small demonstration of what we think we can accomplish in the future. We see continued exponential growth in demand by the Internet giants. In order to service these growing needs, we will continue to focus our resources on developing technologies to enable mobile Internet, video and OTT video, and ecommerce experiences. Cloud adoption is also vigorously driving CDN traffic and at the same time, we are deepening our cooperation with carriers.

Each of these represents a powerful market driver that will continue to propel our growth. While we are pleased with and optimistic about the macro market drivers, our near-term focus will be also on internal operation enhancement in order to ensure our company's continued ability to scale our business in tandem with the growing market opportunity.

Song Wang:

最后呢，想借此机会呢，再次地欢迎我们的新的大股东的加入。我想他们的入股，会使得我们的股权结构更加完善，来自全球的这些知名的投资者的资金，将会帮助公司未来持续的发展。公司在2013年取得的成绩，将帮助、将帮助我们保持快速增长的良好势头，并向实现我们持续盈利的长期的目标，迈出坚实的一步。同时，我们也还增强了我们的信心，让我们坚信，我们的战略是正确的。接下来呢，请Ken去介绍，详细地介绍一下公司第四季度的一些业务情况。

Edith Kwan: Last but not least, we would like to welcome our new investors, whose investments have helped the company to transition our shareholder structure from PIPO fund to the accreditations of global leading wealth management companies, as well as provide adequate funding to strengthen our CapEx budget to support our future growth.

The achievements we've made in 2013 are critical steps towards our continued growth and goal to achieve sustainable profitability over the longer-term. These accomplishments strengthen our confidence that we are taking the right steps to scale our business.

I'll now hand over the call to Ken, who will walk through the operations and technology for the fourth quarter. Ken, please.

Ken Zhang: Thank you, Mr Wang. The fourth quarter was a strong quarter for us and we ended 2013 with record revenues. I am happy to report that the 2013 was marked by improvement in customer engagement, especially enterprise customers, mobile Internet technology development, Internet market expansion and company's efficiency enhancements.

As evidenced by our record revenue, the strategy that we have been implementing over the last year to improve the overall quality of our service has paid off. Internal enterprise customers being one of our strategic focus, we have sequentially increased the number of enterprise customers by 8%, with the revenue from this sector growing by 23.2% in the fourth quarter. Among our enterprise customers, media, consumer goods, and education companies made up more than 50% of new revenue in the fourth quarter.

As a reminder, we began our dedicated focus in this area with establishment of our enterprise sales units in January 2013. It was not a simple task. It is a change in how we acquire our customers. It is changing from bandwidth-based pricing to platform-based pricing. It has changed our role from simple network service to comprehensive solution-oriented sales. It is a

change in mindset. To assist with these changes, we recruited some experienced sales staff in this field in the beginning of 2013. Our total headcount remained stable throughout the second half of the year.

We are happy with the business progress. Revenues from our enterprise vertical achieved a year-over-year increase of more than 150% in the fourth quarter, contributing 10% of our total revenues. We recently saw a boost of our enterprise business from media industry as more and more traditional TV stations are using online channels to broadcast their shows.

Online video has been so popular that it is now presenting opportunity to TV stations as audience has grown and also a challenge as audience is not scattered among different channels. Users can now watch a programme through either web TV, TV stations' official websites or via mobile devices are called multiple screens that screening through different networks from different providers. Additionally, audience now have the flexibility to watch programmes online in real-time playback or even just watch some select clips. With all these options and the medium of – for viewing, traditional TV stations require professional services from ChinaCache to provide all around guaranteed end-user experience.

Apart from media customers, we recent – our recent focus on financial institutions has yielded some early results. In the fourth quarter, we secured a new contract from the CITIC bank to provide CDN for their entire website. Recently, we have also successfully renewed our contract with ICBC, China's largest bank. We remain their exclusive CDN service provider. We have worked with them for the past five years and we continue to expand our scope of service to them including advancement from external website to Internet, from domestic service to global service, as well as the security service. We will continue to leverage our strong customer relationships to enhance our brand within the financial and other relevant markets where we continue to make important progress.

The considerable advancement we made with our enterprise strategy in 2013 will serve as our foundation for future growth. With our dedicated solution team that we put in place three months ago, we can now provide stronger support to our sales efforts and we will continue to develop more products and service to further penetrate the enterprise market. For example, apart from providing external website solutions, we can also provide enterprises with assistance in application acceleration, which includes increasing the speed of their ERP, OA or CRM applications.

Other focus areas for our team will be to help more traditional enterprise with their ecommerce needs, just like how Suning and Guomei are transitioning themselves from traditional enterprise into ecommerce giants. We will also offer enterprise an attractive one-stop shop solution to help with the – with the bulk of their needs such as cloud adoption, CDN, big data and operation outsourcing.

Mobile Internet continues to be an area of strategic importance for ChinaCache. Last month, ChinaCache attended the Mobile World Congress in Barcelona where we had our exhibit for the first time. Through this event, we were able to connect with a number of global carriers and the telecom vendors. We gained a great deal of attention at this event, especially related to our mobile caching solution.

In addition, in February Ericsson announced the global CDN partnership between them and ChinaCache to support mobile operators' content and media delivery service. In early March,

we also signed a R&D cooperation on mobile CDN solution with Nokia Solutions and the network. This achievement demonstrates that ChinaCache is gaining important traction in mobile Internet development and is keeping pace with the global market development.

Our goal is to expand faster, steadier Internet capabilities across China to support the massive build up of next generation mobile network 4G and the cloud computing infrastructure. Looking at the business catalyst in the near term, cloud adoption is rapidly taking off. Our enhanced CDN is critical to provide a better user experience for cloud computing and our strategic partnership with leading cloud service provider is critical to the progression.

We continue to see a number of sizable Internet giants adding CDN support for their cloud offerings. Beside Microsoft cloud service, Windows Azure and Kingsoft Cloud, we recently added another major Internet customer who already engaged over 100 million users on their cloud platform just several months after its launch. Leveraging our widely distributed content media network integrated with their cloud solution, we can help our customers enhance the user experience and improve user adoption. We are extremely excited about the continued cloud computing momentum.

Our Internet traffic in the fourth quarter was also greatly boosted by the Annual Online Shopping Gala on 11th November. All of China's major ecommerce providers posted record sales that date, from the 24 hours online shopping blow out. One of our customers, the Chinese smartphone maker Xiaomi, was among the first companies to reach RMB100 million in sales during the festival. Part of their sales was from set-top boxes; together with other brands, a huge number of set-top boxes and Internet TVs has been sold during the shopping gala, which means there is a potential boost of video traffic in the longer-term that will translate into meaningful revenue contribution to our company.

In order to provide tailored service for the OTT market, we will continue to advance our one-stop OTT CDN solution as we further expand our video business in 2014. Recently, our overseas market has been expanding beyond Asia, driven by our telecom vendor cooperation. Over the past years, we have worked to develop partnership with operators in Southeast Asia. We are really excited to continue this momentum with more global approach going forward.

In some business cases, we work in partnership with Ericsson and Ericsson's media delivery network integrating with ChinaCache's global CDN service to facilitate operators' ability to deliver more content to subscribers. This partnership marks an initial step that can open up new revenue streams not only for ChinaCache but also for operators and the content providers which creates a win-win situation for all parties.

We have also progressed our internal organisation enhancement initiatives by making advancement to our network cost optimisation plan. One of the things that we are doing is bringing a resource management system which we believe is going to help us optimise efficiency in bandwidth and the cost – and the collocation cost. We expect these enhancements to structurally reduce network costs and improve our bandwidth utilisation by end of 2014.

Going forward, we will continue to invest strategically to take advantage of China's rapidly developing Internet market, which provides us with considerable advantage to continue to build up our success. Apart from our network cost enhancement initiatives, we are continuously improving our internal ERP capabilities. For example, in the fourth quarter we're successfully building a sales cycle management function into our ERP. The expected result is that we will be

able to better track and treat all the development projects in the pipeline and better match customer needs with our offerings.

In the coming months we will continue to enhance our ERP and the CRM system to support our company's rapid growth. I'm pleased that I have already seen improvement in the visibility and the predictability across organisations. These tools are important part of our ability to effectively scale the business as we pursue our sales goals and advance our strategic initiatives into both top-line and the bottom-line improvement.

By the end of 2013, we had also streamlined our workforce and also have plans to put in place to further drive our overall efficiency. Going forward, the company will take a disciplined approach to our investment strategies on all fronts and ensure company's sustainable, profitable growth.

We are making steady progress across our business and I'm pleased with our achievement today. We look forward to keep everyone updated on this initiative as we move through the year and we continue to build a business with particularly near-term focus, our mobile enterprise, where we continue to see opportunities to provide enhanced experience to new and existing customers and to deepen our penetration with this market.

With that, I would like to hand the call to Jing for a financial recap. Please.

Jing An: Thank you Ken. Hello everyone and thank you for your participation. Today, my presentation will start with the financial highlights for the fourth quarter 2013 followed by a review of our results of the full year. I will then conclude with our guidance for the first quarter of 2014 and open the call for your questions. Please note that the denominating currency is RMB unless otherwise specified.

In the fourth quarter ChinaCache set another record in revenues thanks to across the broad market trends, especially from the Internet and software and media and entertainment and the ecommerce verticals, which increased 40%, 23.2% and 23.2% quarter-over-quarter respectively. Compared to the previous quarter, net revenue for the fourth quarter jumped 23.2% to RMB339.4 million from RMB275.4 million in the third quarter.

Gross margin were 31.6% nearly flat compared with last quarter. Our gross margins have been quite stable over time. However, bandwidth cost in terms of revenue increased slightly in the fourth quarter due to the extra bandwidth cost to handle the spike in traffic in the fourth quarter. Despite this, in the longer-term, as Ken mentioned, we have our resource management system currently under development and is scheduled to be in place by the end of this year which should see some structurally lower bandwidth cost by that time and beyond.

Operating loss for the fourth quarter improved to RMB6 million compared to an operating loss of RMB17.1 million in the previous quarter. Non-GAAP operating loss which includes share-based compensation expenses and the impairments of available for sale was RMB1.1 million, compared with a non-GAAP operating loss of RMB12.2 million in the third quarter of 2013 and a non-GAAP operating loss of RMB20.8 million in the fourth quarter of 2012.

Looking at the integrated operating expenses items, the cost of streaming line – streamlining the organisation and the payments of year-end bonus in the fourth quarter of 2013 triggered some extra personnel-related payments in each of our OpEx elements. Our general and administrative expenses for the fourth quarter decreased by 10% over the previous quarter of RMB43.4 million; the decline in general and administrative expenses was primarily attributable

to the previous quarter's accrual of bad provision. Excluding the accrual of the bad provision in the third quarter, the sequential increase in the G&A expenses in the fourth quarter was mainly attributable to the personnel-related expenses.

Sales and our marketing expenses as a percentage of revenue were about flat at 11.2% compared to the previous quarter. Total sales and marketing expenses increased to RMB25.7 million to RMB38 million quarter-over-quarter, primarily due to the increased personnel-related expenses and more marketing activities during the end of the year.

R&D expenses for the fourth quarter were 9% of total revenue compared to 9.5% in the third quarter of 2013, but the actual amount went from RMB26.2 million in the previous quarter to RMB30.6 million in the fourth quarter. The 16.5% sequential increase in R&D spending again was mainly related to the personnel-related expenses.

All in all, our total operating expenses including impairment of available for sale investments were 33.4% of revenue compared to 38% in the third quarter. In 2014 we will be very disciplined in overall expenses through strict budget control. Meanwhile, we will also continue to refine our ERP system to provide better visibility across the organisation to optimise our operational efficiency. In addition, we have been continually making significant improvement of our sales cycle. In the fourth quarter, our DSO decreased to 93 days from 124 days in the third quarter.

Overall, adjusted net loss defined as net loss before share-based compensation expenses, foreign exchange loss, penalties on uncertain tax positions and impairment of available for sale investment improved to RMB5 million in the fourth quarter. This compared – this compared with an adjusted net loss of RMB16 million in the previous quarter.

Overall, our non-GAAP loss per ADS in the fourth quarter of 2013 was RMB0.22 compared with a loss of RMB0.70 in the previous quarter. Adjusted EBITDA, defined as EBITDA excluding share-based compensation expenses, foreign exchange loss and the impairment of available for sale investments, improved more than fivefold to RMB20.3 million in the fourth quarter, compared to RMB3.9 million in the third quarter. Adjusted EBITDA margin for the fourth quarter was 6% versus 1.4% in the previous quarter.

Now, I would like to provide a brief recap of our performance of the 2013 full year. Compared with 2012, our revenue increased to 35.6% to a record RMB1.1 billion. Our gross margin increased to 31.4%, up 20 basis points from 2012 owing to a favourable customer mix and the lower depreciation cost.

For 2013, adjusted net loss was RMB15.8 million versus an adjusted net income of RMB3.4 million for 2012 as we made a considerable investment toward our future growth beyond 2013 as well as some streamlining efforts to position the company for long-term growth and sustainable profitability. Our non-GAAP loss per ADS for 2013 was RMB0.70 compared with a non-GAAP earnings per ADS of RMB0.15 in 2012. For the full year, adjusted EBITDA was RMB48.2 million compared with RMB69.1 million in 2012.

In February we were pleased to successfully raise US\$55 million in a private placement affiliated with one of the world's leading institutional investment management firms. We plan to use US\$29.6 million to buy back shares from some existing pre-IPO lot shareholders, so the net proceeds will be about US\$25 million and will be used for 2014 CapEx proposed mainly for building out our resource management system. Right after the close of the deal on 5th March,

we had approximately 398 million ordinary shares outstanding equivalent to 24.9 million ADS, and the new shareholders will have about 13.5% equity ownership in ChinaCache.

Now let me provide you with our first quarter 2014 guidance. Based on current business projections, we expect our revenue to be between RMB303 million and RMB308 million, representing 31.3% to 33.5% gross over the first quarter of last year.

This concludes my remarks. I would now like to open the call for questions.

Operator: The question-and-answer session of this conference call will start in a moment. In order to be fair to all callers who wish to ask questions, we will take one question at a time from each caller. If you have more than one question, please request to join the question queue again after your question has been addressed. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced.

Our first question comes from the line of Kai Qian of CICC. Please ask your question.

Kai Qian:

哎，王总，还有那个Ken、安总，大家早、早上好，那个首先这个恭喜公司第四季度这么强劲的收入增长，我有几个问题，那我就问中文吧，然后那个请Alice帮我翻译成英文好了。那么第一个问题就是说，虽然第四季度这个还是这个有一点点亏损，其实也不多，那么我们，我很关心的问题就是说，公司在今年有一些哪些具体的一些计划，可以把费用控制得更好一些，然后呢，可以尽早地实现这个公司的盈利。那么第二个问题就是说，刚才Ken也讲到这个4G的发展，对于今年中国4G的发展，对于整个CDN的行业会有很大的帮助，那么能不能请公司给我们更详细地解释一下，就是说4G的发展，包括公司最近跟中国移动，包括爱立信，包括诺基亚一系列的合作，会具体体现在公司的哪些方面？那么第三个问题就是说，前两天呢，公司也做了一次融资，那么我想请问这个公司管理层的问题是，那么这个资金对于公司今年这个发展有哪些帮助？好，谢谢。

Edith Kwan: Thank you, Kai. I will translate maybe three of your questions; first of all is, yeah, congrats the company on the [inaudible] high revenue in the fourth quarter but still a – [inaudible]. So, you are asking what's the plans of the company to be profitable this year, and also for question two, you were asking about the quality development, how would this be impacted our business and help our cooperation with China Mobile and Nokia. And the third one is about the financing of – you know, what [inaudible].

Jing An: Okay. Okay, let me start with – about how or what kind of actions we will take to control our expenses. First of all, we – in this year we will imply very strict budget control and that will help us – our expenses grow inline and slower than – than our revenue growth and going forward, we will expect to more tightly control of our – of our cash flows – our OpEx and we will continuously improve our employee productivity. And as we – as I mentioned in our remarks, we streamlined the organisation in the latter half of 2013 and we will – we will continually control the growth of headcount and focus on increasing the quality and efficiencies of our productivity.

Song Wang:

我想补充一个啊，就是说实际上整个公司在、在这个改善整个的，这个提高运营效率啊，包括增大规模，从网络从这个，包括其实我们跟这个运营商的合作的方式等等，这一系列可能都会在未来的话，我们都会看到对公司的整个的这个这个盈利能力呢，会有、会有非常大的这种支撑。所以说整个的，当然我们还会对公司的整个运营，进行、进行有效的控制，但是核心来说呢，最终我觉得还是希望是，在一个更大的规模上，来去实现、实现盈利。因为我们希望呢，我们未来我们会看到，3-

5年啊，应该至少，应该这个business应该是在，是我们自己的话，应该有这种接近百亿的这样一个规模。所以我们今天可能更多的是要在这块去做投入，去能够支撑未来的这个百亿收入的这个能力。

Edith Kwan: Yeah. I just want to explain, first of all, now we should build out the network to have enough scale to be profitable and also through the cooperation with carriers it will also impact this to support how we achieve profit in the – in the longer future. And right now, we foresee – we envision in the three to five years, the market can be at RMB10 billion in size. So, right now we have enough large-scale and improving our internal efficiencies so that we can embrace the market when the market really ramps up in the future.

Ken Zhang: Okay, so I can answer the question about mobile Internet. I think ChinaCache mobile internet solution, we have two tracks why is through cooperation with a telecom vendor and the carrier. This is what we have announced and Ericsson has announced with – with China Mobile and with all the carriers. So, this is one track.

Another track is actually our in-house development actually accelerate the content through the network. So this is second mobile Internet solution. I can talk a little bit about the first one. You know, the – the cooperation with Ericsson and the Nokia – Nokia Solutions, this is a cached content in the mobile network. This needs to have a bulk carrier and vendor and CDN service provider work together to make it happen. So this will – depending on all three parties, and we are – we are leading in this field because we actually manage the content through the network. We can help Ericsson, help Nokia Solutions, help the carrier and – to really make this happen, as I said in my – in my presentation. The timing is a little bit unclear; it's depending on many parties. But I believe this will happen during the year, before end of the year. So that will happen, but the timing will be decided by the carrier.

And the second solution is our own in-house developed mobile Internet solution. We actually accelerate the content through the network, through the mobile network, cache the content in mobile device and going to access through a home gateway. As I mentioned, this product is already on trial with the customer. The result is very promising.

So we believe this will generate revenue in the second half of this year. And I think the business model is – we will get additional revenue from our existing customer, of course we also can get new customers for this product. So, I don't know if I answered the full question. So, I hope it is getting more clear after this.

Song Wang:

OK，我想再补充一点吧，就是说实际上我们今天的话，很重要一个，我们现在呢，已经在开始在去建立针对移动互联网的CDN的CDN。这可能目前也是我们也是第一家，也是唯一的一家，再去建设这样的一个针对移动，针对移动互联网的CDN的解决方案。包括这些技术，也都是为了这个来去做准备。

Edith Kwan: Yes, other than that we are right now – actually we are the first and only company, senior company building for the mobile CDN solution tailored for this mobile market.

Jing An: Let me answer your – the third question. As in – as we mentioned, we are working very hard to improve our bandwidth – bandwidth efficiency. So we bring in a resource management system to help us to deploy the bandwidth and collocation cost efficiently, which we expect will improve our network cost in – in the third or fourth quarter. So to realise that, we need to invest in the CapEx. So with this financing we get closer, that we get closer will actually come in the exactly right timing to support our plans.

Operator: We do emphasise that if you have more than one question, please requeue once your question has been addressed by pressing *1 again. Our next question comes from the line of Jun Zhang from Wedge Partners. Please ask your question.

Jun Zhang: Thanks for taking my question. Congrats on the solid quarter. My question is – so we see a very strong growth of top-line in Q4 and we also see a sequential increase of spending on the sales and marketing. So my question is, so the full – the strong growth of the top-line – the top-line growth supported by the spending on the sales and marketing and what we should expect the marketing sales, the general administration cost as well as the R&D costs over the percentage of revenue for Q1? And should we expect OpEx percentage over total revenue will be gradually coming down in the rest of – in the rest of this year? Thanks.

Jing An: Okay, so in my remarks we – actually we explained the fluctuation of the three items of the OpEx, the reason of the increase. So just briefly say that the main reason of the OpEx increase in the fourth quarter is the personnel-related expenses. That comes from our streamlined organisation. And the second reason of the growth is our share-based compensation, and exclude that part you will – we will see – you will see that the – the higher efficiency of our OpEx investment. So in the longer term, in the next quarter and in the coming – in the coming – I mean 2014, we have confidence to gradually increase our efficiency of OpEx.

Jun Zhang: Okay, could you – could you give us a little bit colour on the Q1 guidance about the OpEx or what the percentage of total revenue is coming down from Q4? Any change in the cost side? Thanks.

Jing An: You know, due to the seasonality in the first quarter of 2014, we don't expect quite difference from 2014. We will try our best to keep the similar trend of Q4. I think for the purpose of modelling, we target the similar number of the fourth quarter of 2014.

Jun Zhang: Thanks. I'll go back to the queue. Thanks.

Operator: Once again, if anyone would like to ask a question, please press *1 on your telephone and wait for your name to be announced.

There's a follow-up question from the line of Jun Zhang of Wedge Partners. Please ask your question.

Jun Zhang: Thanks. My follow-up question is on your Q4 results, we do see a very strong revenue growth from Internet and software, so your reported Internet and software percentage over total revenue increased from 22% in Q3 to 25% in Q4. So I just wanted – wanting more colour on, you know, where those growth coming from, you know, which area it's mostly strong in Q4? And should we expect that segment to continue to grow? Thanks.

Jing An: Okay. So actually in the last quarter of 2013 we experienced very strong growth across the board, especially the traffic from major customers, software downloads. And video revenue ramp-up and also the traffic from our Internet customers were strong contributors to our growth for the period.

Jun Zhang: Okay, thanks. My next question is that – it is actually to Ken Zhang, though, so any update on the mobile caching business? And you just mentioned the partner with China Mobile; should we expect, you know, the revenue contribution to start at Q3? And what's our

current feedback from the clients – the current clients, if they are willing to pay extra for the 4G base station caching or smartphone caching service? Thanks.

Ken Zhang: Actually, as long ago I had said, you know, we actually have very close cooperation with all three carriers in China, China Telecom, China Unicom and the China Mobile. So, we have – I think this seems that the 4G deployment is a massive deployment in China. We also see huge traffic growth in China. So we actually have very good – or we have very deep – very much close cooperation with Telecom, Unicom and the China Mobile.

And to answer your second question about the business model part, because if we can demonstrate our mobile CDN and improve the end-user experience, and facilitate additional revenue, so I think this is what we are doing now and the result, the trial result has been really promising. So we are confident this will start to generate some revenue in the second half of this year, but the more significant next year – more significant revenue in next year's revenue.

Operator: We are now approaching the end of the conference call. I'll now turn the call over to ChinaCache's president, Dr Ken Zhang for his closing remarks.

Ken Zhang: Thank you to all our shareholders, employees and partners. We appreciate you spending this time with us today and we invite you to watch our progress. We are excited for our prospects in 2014. Our growth trajectory and the favourable market dynamic place ChinaCache in the favourable position as we continue to expand our business with an eye towards enterprise, toward internet technology and overseas expansion opportunities. I look forward to updating you on this initiative in a few months on our next quarterly call. Thank you. Thank you all.

Operator: Thank you very much. Ladies and gentlemen, that does conclude our conference for today. Thank you so much for your attendance. You may now disconnect.

[END OF TRANSCRIPT]