

NASDAQ OMX

Moderator: Jing An
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Operator: This is conference #: 7524177

Ladies and gentlemen, thank you for standing by and welcome to the ChinaCache fourth quarter and full year 2014 earnings conference call. Please be advised, that all participants are currently in a listen-only mode. Following the presentation, if you wish to ask a question, please press star one on your telephone.

I would now like to hand the conference over to management for their remarks. Thank you. Please go ahead.

Female: Hello everyone and welcome to ChinaCache's fourth quarter and full fiscal 2014 earnings conference call. We distributed our earnings release earlier today. If you've not received a copy, you can find it on the Investor Relations section of our website.

Today you will hear from Mr. Song Wang, ChinaCache's Founder, Chairman and CEO; Dr. Ken Zhang, the Company's President; and Ms. Jing An, the Chief Financial Officer. 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 Harbor provisions of the U.S 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 relevant law.

Our earnings press release and this call includes discussions 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 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 Web site.

I would now turn the call over to CEO Mr. Wang, who will make his remarks in Chinese, and then I will provide a English translation.

Song Wang: (Spoken in Mandarin).

Female: Thank you for joining us today.

Song Wang: (Spoken in Mandarin).

Female: I'm pleased to report that in 2014, we achieved our primary strategic objective of improving our network infrastructure and operation efficiency in order to solidify our leading position in capturing mid to long-term growth opportunities.

Song Wang: (Spoken in Mandarin).

Female: I would like to bring you up to date on the important current and long-term strategic initiatives to improve our operational efficiency, service capacity and centralize our resources.

Song Wang: (Spoken in Mandarin).

Female: First, we started the Super Node project early in 2014, which will (improve the capacity) of the entire network.

Song Wang: (Spoken in Mandarin).

Female: Next, we started our High Performance Cloud Cache, HPCC, platform migration in 2014. And following a successful launch last quarter, it has proven to improve bandwidth utilization rates to improve access to content for end-users and reduce customer cost. It also reduces the number of hosted groups from 400 to 3, significantly improving operational efficiency per engineer. The migration is scheduled to complete by the first quarter of 2015.

Song Wang: (Spoken in Mandarin).

Female: In the second quarter of 2015, we are also launching our Bandwidth Scheduling Platform. This is a cloud based bandwidth allocation system combining real-time data computing and big data analysis to realize predictable bandwidth capacity and intelligent scheduling.

Song Wang: (Spoken in Mandarin).

Female: Our president, Ken, will provide you more details in a short term.

Song Wang: (Spoken in Mandarin).

Female: Reviewing 2014, our full year revenue increase is mainly driven by Internet/mobile video, mobile usage and mobile apps the trend towards cloud-based services and applications, and continued growth of the enterprise sector.

Song Wang: (Spoken in Mandarin).

Female: Currently, video transmission accounts for more than 50 percent of total Internet traffic in both China and the U.S. Traditional TV stations are setting up their own new media departments in an effort to transform from traditional media outlet into Internet outlet.

We can address this demand by providing our technology to strengthen their core competitiveness and ensure stable and cost-effective content distribution.

Song Wang: (Spoken in Mandarin).

Female: We are happy to report that revenue from our video sector doubled in 2014 including video on demand and our live streaming businesses, in particular, the online game streaming business. We surpassed 40 percent overall growth for the video industries in the past year.

Song Wang: (Spoken in Mandarin).

Female: During 2014, we also formed strategic partnerships with two major traditional TV stations, Beijing TV, BRTN for short and Hunan TV, for BRTN's live streaming event of the Chinese new year gala, we provided the one stop content-aware network solution with ultrahigh bandwidth and a dedicated resource pool.

Recently, we started working with Ucloud to incorporate our video business after our cooperation with Microsoft. Through our cloud platform, it gives us the opportunity to work with sizable existing Ucloud clients.

Song Wang: (Spoken in Mandarin).

Female: I will talk about the media platform, SMS, Smart Media Server, which enables interactive live streaming content for online delivery to multiple networks, devices and in different formats will be launched in the second quarter of 2015, our president Ken will explain further in his prepared remarks.

Song Wang: (Spoken in Mandarin).

Female: Now let us move to the mobile part.

Song Wang: (Spoken in Mandarin).

Female: With the fast growth of mobile data traffic, mobile applications continue to evolve from mobile text and mobile music in the beginning, to mobile games, mobile voice, mobile education and mobile video at present.

Song Wang: (Spoken in Mandarin).

Female: To capture the increasing need for mobile broadband and network bandwidth, we have introduced the first of its kind breakthrough in mobile acceleration called MPlus.

And through MPlus, we have been working with some well-known companies across different verticals. According to a third-party evaluation, MPlus has absolute advantages in terms of latency, stability and accessibility, and helps CP to save bandwidth costs through our technology of intelligent caching, dynamic data compression and 60 percent higher transmission efficiency.

Song Wang: (Spoken in Mandarin).

Female: Our current MPlus clients include Uber, medical app “Haodaifu,” message app “Secret,” photo-sharing social app “Nice”. We're also working currently with one of our very large customers with bandwidth usage in excess of 1 terabits to bring our cooperation to the next level by doubling our services.

This customer is one of the largest global software technology company.

Song Wang: (Spoken in Mandarin).

Female: Now let's move on to our enterprise segment. Enterprise is a key area of focus for our Company this year. Our current enterprise customers come from a variety of industries, including information technology, consumables and consumer, finance, advertising, retail, travel and TV, as well as broadcasting.

Song Wang: (Spoken in Mandarin)

China Construction Bank, Taikang Life and CreditEase became our latest banking clients in the fourth quarter of 2014, in addition to our other well-known clients including ICBC, China Citibank, China Merchant Bank, China Everbright Bank.

During the fourth quarter, we strengthened our leading position as a solution provider for financial industry clients.

Song Wang: (Spoken in Mandarin).

Female: In addition, we won a service contract for China Mobile's enterprise department for in-depth cooperation in the future. We also made progress in working with more than 20 TV stations, including HNTV, WASU, CNTV and CZTV. Huawei, as a well-known enterprise brand, has also started working with us for global CDN solution services.

Song Wang: (Spoken in Mandarin).

Female: I'd also like to share with you another significant development in 2014, the completion of the core structure of our Atecsys Cloud Data Center, including nine data center buildings and one exhibition center. Upon full completion and commencement, it will be the largest one-campus T3 cloud data center in the region with approximately 7,500 racks, totaling 80,000 square meters.

Song Wang: (Spoken in Mandarin).

Female: We've also entered into agreement with Beijing Federation of Supply and Marketing Cooperative, or BFSMC, on a customized cloud data center. ChinaCache will also provide operational management and management services under the agreement. BFSMC is our second customer of Atecsys after people.cn. This total value of the contract is approximately RMB1.5 billion. Construction is expected to be completed by the end of 2015. People.cn and BFSMC will occupy three buildings, with approximately 2,500 racks. And we expect this client to contribute to our revenue beginning in 2016.

Song Wang: (Spoken in Mandarin).

Female: Lastly, I'd like to share with you ChinaCache's growth strategy in 2015.

Song Wang: (Spoken in Mandarin).

Female: With the introduction and stability of our super node project, HPPC and the BSP platform in 2015, we expect our capacity and operational efficiency to improve significantly.

We'll utilize this advantage to continue our steady growth across our video, enterprise, mobile terminal and application, cloud service, and international businesses.

Song Wang: (Spoken in Mandarin).

Female: Looking ahead, we'll continue to strengthen our position in the video industry. The upgrade of our SMS video distribution platform promotes the transformation of traditional media to new media service platform, and provides customers with an overall video solution, particularly OTTTV and live broadcast areas.

Song Wang: (Spoken in Mandarin).

Female: We have grown our enterprise customer base in the financial and aviation industries, and we are also expanding into the consumer, media, software and healthcare industries to provide enterprise total solution.

Song Wang: (Spoken in Mandarin).

Female: The Company introduced its enterprise self-provisioned platform, Webluker and has over 20,000 registered users, including Coca-Cola, Microsoft, 300.cn, and Ganji.com we will further promote Webluker to provide customized, efficient CDN solutions to other enterprise customers.

Song Wang: (Spoken in Mandarin).

Female: We continue to closely follow the fast growth trend in mobile Internet to promote our MPlus service, in particular O2O, mobile e-commerce, finance and social network to strengthen our leading position in mobile Internet.

Song Wang: (Spoken in Mandarin).

Female: Additionally, we will introduce cloud hosting, cloud storage, cloud monitoring, cloud back up, cloud security and other products based on the foundation of our current products, to introduce a more comprehensive and efficient cloud-based solution for our clients.

Song Wang: (Spoken in Mandarin).

Female: We'll also expand our North American business and at the same time further develop Southeast Asia and Europe to explore additional partnership models.

Song Wang: (Spoken in Mandarin).

Female: Maximize our global bandwidth resources through our intelligent unified scheduling platform to support conglomerates like Microsoft will remain as one of our key strategic initiatives in 2015.

Song Wang: (Spoken in Mandarin).

Female: There's still much work to do and many opportunities ahead of us in 2015. However, we remain confident in our ability to execute on our growth strategy and we have achieved a comprehensive upgrade to our infrastructure foundation in 2014.

I'd now like to turn the call over to our President, Mr. Ken Zhang.

Ken Zhang: Thanks everyone. As Mr. Wang said, 2014 has been a very important year for the development of our network infrastructure and the software platform.

The deployment of HPCC high-performance cloud cache is a milestone for ChinaCache. It is a major upgrade of our CDN platform. And it is based on cloud infrastructure and latest data analytics technologies which can provide the network service with higher scalability, flexibility and stability.

HPCC will be the foundation for ChinaCache's future business growth. Our HPCC deployment project is ongoing, is expected to be fully functional by end of first quarter of this year.

From our ongoing test results, our network performance has improved by more than 60 percent compared to the previous platform, and is significantly better than the competition.

In 2014, we completed a major part of our super node upgrade project in which we consolidated and rebuilt and optimized all our service nodes into a

portfolio of large, medium and small nodes. It is an upgrade to the physical network layer. The upgraded large and medium nodes have higher flexibility and more redundancy. The small service node will ensure geographic coverage and service backup. This has resulted in lower procurement cost and a more efficient bandwidth usage. This super node has made it possible for our HPCC platform to function in an efficient way.

Looking forward, there's another ongoing development project that we started in the third quarter of 2014, BSP, our Bandwidth Scheduling Platform. The objective of BSP is to optimize bandwidth usage and balance traffic throughout the entire CDN network. We will be able to optimize even further the bandwidth usage and improved network capacity.

In Q4 2014 we commercially launched a breakthrough product for the mobile Internet called MPlus. This produce provides important benefits to service provider of mobile e-commerce, mobile video, mobile gaming, mobile social, and other mobile Internet companies that generates heavy data traffic, allowing them to achieve in average of 60 percent higher transmission speed.

By integrating with this customized one-stop free-of-charge data traffic solution to the end-user, MPlus will lower our customer operating costs while significantly enhance end-user experience.

This will provide the mobile Internet companies with a clear competitive advantage in an increasingly competitive market.

MPlus is a network-aware, terminal-aware and application-aware solution that accelerates traffic through the implementation of file merge, deferred loading and HTML intelligent analytics. It also relies on ChinaCache's existing broad network coverage and bandwidth resources to provide professional service for mobile Internet business.

MPlus has attracted a lot of attention from our existing customers and the new customers. With a fast-growing 4G mobile network deployment by China Mobile, we believe our MPlus product will play a major role in our future business development.

Another example of our leadership in mobile Internet occurred early 2014 when we partnered with one of the leading mobile communication companies Nokia Solution Network, NSN, to incorporate CDN technology into its liquid application solution. We developed a mobile CDN solution to interface with the 4G mobile network. The cooperation enables content to be delivered directly from a 4G LTE base station to the end-user, which translates into faster data throughput and a new level of personalization for a superior end-user experience, while creating new business model for the mobile operator.

This solution enables content provider to place their content at the very edge of the mobile operator's 4G LTE video network, will save the bandwidth consumption in the backbone network, reduce content loading time, and result in significantly lower latency. On top of that, operator will be able to create innovative service for mobile subscribers and offer highly personalized content.

A final note of our mobile initiatives, during third quarter 2014, ChinaCache won the bid to be an exclusive CDN service provider for China Mobile's government and enterprise service offering. This will expand our enterprise customer base significantly.

With MPlus and our mobile CDN solution, ChinaCache is at the forefront of the mobile Internet and setting the standards for rest of the industry in China.

In next five years, we foresee video traffic increasing exponentially and the live streaming content delivery will be increasingly popular in business sectors like gaming, talk show entertainment, education, news portal and HD – high-definition Internet TV.

Online video accounts for more than 50 percent of total Internet traffic in China and almost 80 percent of traffic growth in 2014.

Traditional TV stations are setting up their own new media departments in an effort to transform from a traditional media company into an Internet and mobile Internet player.

To capture the huge demand and follow this trend, we have further developed our video delivery platform, SMS, Smart Media Service. SMS is an in-house developed platform that enables interactive live streaming content for online delivery to multiple networks, multiple devices and in different formats.

A good customer case is Hunan TV. In the second quarter of 2014, we signed a contract with Hunan TV to distribute their content over the Internet. Hunan TV is a traditional television broadcaster, but now their viewer can also watch the same video content on a mobile device. With ChinaCache CDN service, Hunan TV's online viewership has grown exponentially. The peak bandwidth from Hunan TV has increased from tens of gigabits per second in Q3 to over terabit per second by end of 2014.

As one of the leading CDN service providers in China, we help Chinese enterprise to provide total solution and help them deliver locally and reach globally by offering high-quality user experience online.

Our enterprise solution supports efficient data transmission between headquarter and branches. And traditionally, the data was transported through VPN. But with ChinaCache's CDN solution, enterprise will have exclusive data transmission channel that helps to connect the branch office, the business partner and the mobile workforces to ensure efficient data transmission and sustainable business growth.

Also our enterprise solution can guarantee better website security, effectively protecting the website from hackers, reducing the risk of downtime and data breaches and impact of distributed DDOS attack.

Our enterprise solution has been very successful in a range of financial service companies including banks, finance portals, investment funds, security houses and insurance companies. They are in need of an effective online presence to compete effectively in today's market. And once they are online, will require the speed, efficiency, security offered by one-stop enterprise solution.

In Q1 2014, we extended our exclusive contract with ICBC for another – for additional five years. It is a successful example for our enterprise solution.

ChinaCache is providing CDN service both in China and globally for ICBC.

Now I would like to talk – take a moment to talk about Webluker. Webluker is a self-provisioned cloud CDN platform which is aimed to supporting small, medium enterprise and individuals together with cloud storage and domain hosting seamlessly. Webluker requires approximately 1 minute for registration, 5 minutes for configuration, and 10 minutes for activation. These easy steps enable small, medium enterprises to focus more on the content operation, reduce the operational risks, and minimize the investment cost.

We launched the Webluker.com in 2011 and since then we have served more than 20,000 registered users by end of 2014. We will also add new service to the existing platform like webpage performance, download acceleration, video-on-demand, and the live streaming service on Webluker in 2015.

In summary, our new platform, including our HPCC cloud caching platform, BSP, traffic and bandwidth optimization platform, SMS, Smart Media Service, and Webluker, self-provisioned CDN service platform, will address the rapid growth of mobile Internet, cloud computing, big data, e-commerce, Internet banking and all other Internet data service both in China and globally.

Before I hand over the call to An Jing, I want to mention a few words about our internal operational improvement project.

Our CRM has been fully implemented in the sales organization and in 2014 we have also linked CRM to our business unit and resource management center. Now we can monitor and control the entire sales process from each sales opportunity to backend supporting unit, will result in improved efficiency in bandwidth utilization and shorter response time toward the customer.

Now I want to turn the call over to our CFO, An Jing. 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 of 2014, including an explanation of our bad debt provision, followed by a review of our results for the full year 2014. I will then conclude with our revenue guidance for the first quarter and full year of 2015, and open the call for your questions.

Today, I would like to begin with some background information on the bad debt charge that we recorded during the quarter. Our cooperation with Jike, which is state-owned search engine company, began in October of 2010 and have always been positive. However, Jike had some internal issues and we decided to terminate its service as of June of 2013 and commenced our best efforts in communicating and in negotiating with Jike in order to collect an outstanding amount of RMB32.5 million.

Although every quarter, Jike provide written statement in demonstrating its best efforts in fundraising for outstanding payments not only to us but also to other vendors as well, we do not see much meaningful progress. As a result, we decided to make the conservative approach by recognizing all the aggregate bad debt into our fourth quarter financials. We will continue our ongoing negotiation with this former customer.

Moving forward, we have implemented various methods to control the future bad debt risk, including more comprehensive customer evaluation and stricter payment terms. We currently do not expect to claim any significant bad debt in 2015.

Now I will move on to Q4 results. Please note that the demonstrating currency is RMB unless otherwise specified. And I am excluding the impact of RMB32.5 million bad debt charge in my discussion.

In the fourth quarter of 2014 we generated net revenue of RMB338.9 million, down 0.2 percent from RMB339.4 million in the fourth quarter of 2013. On a sequential basis, net revenue in the fourth quarter decreased by 9.7 percent.

Fourth quarter revenue of RMB338.9 million came in below our guidance range primarily because we made a strategic decision to accelerate the migration of customers to our high-performance cloud cache platform during

the fourth quarter, as we discussed on our previous calls. This migration required taking a portion of our network out of the service during the quarter, which considerably reduced our available bandwidth to other projects more than we originally expected.

As this migration will continue into the first quarter of 2015, we currently expect the first quarter of 2015 revenue to be slightly above the first quarter of 2014. However, once we completed the migration, we expect the revenue growth momentum to return.

Fourth quarter gross margin was 30 percent, which was similar to the third quarter, and down compared with 31.6 percent in the fourth quarter of 2013. In 2014, as mentioned by our CEO, a significant objective of the Company was to enhance operational efficiency. To achieve this, we undertook a number of strategic initiatives including overall streamlining the organization, centralizing the bandwidth resource and completing super node upgrade, implementing an advanced resource management system, consolidating and centralizing backend operation teams.

All of these initiatives position the Company well for 2015 and beyond, which can be demonstrated by our operating and capital expenditures.

Our total non-GAAP operating expenses was RMB90.1 million or 26.6 percent of the net revenue, compared with RMB101.5 million or 27 percent of the revenue in the prior quarter, and compared with RMB108.6 million or 32 percent of the revenue in the fourth quarter of 2013. The year-over-year decrease in total operating expenses as a percentage of the net revenue is a result of economies of scale and our enhanced operating efficiency, as I mentioned previously.

As a result, in the fourth quarter, non-GAAP operating income was RMB11.7 million, compared to RMB12.6 million in the prior quarter and a non-GAAP operating loss of RMB1.1 million in the fourth quarter of 2013. We are very pleased that while achieving healthy growth, we maintained the careful control over operating expenses, enabling us to deliver the positive operating profit throughout 2014 as compared to 2013.

Adjusted EBITDA was RMB44.7 million in the fourth quarter, an improvement of about 21.1 percent from RMB36.9 million in the prior quarters, an almost 120 percent year-over-year increase. Adjusted EBITDA margin for the fourth quarter was – sorry, was 13.2 percent, compared with 9.8 percent in the prior quarter and 6 percent in the fourth quarter of 2013.

Overall non-GAAP adjusted net income was RMB15.7 million, compared to RMB8.9 million in the prior quarter and adjusted net loss of RMB7.2 million in the fourth quarter of 2013. As a result, non-GAAP diluted earnings per ADS in the fourth quarter were positive RMB0.59 compared to RMB0.34 in the third quarter and diluted loss per ADS of RMB0.31 in the fourth quarter of 2013.

Now I would like to provide a brief recap of our performance for the 2014 full year, which also excludes the impact of RMB32.5 million bad debt charge.

Compared with 2013, our 2014 revenue increased 25.5 percent to RMB1.4 billion. Our gross margin decreased to 30.2 percent from 31.4 percent in 2013, primarily due to our super node investment which resulted in higher depreciation expenses.

For the full year, adjusted EBITDA was RMB135.5 million, representing over 190 percent increase compared to RMB46.2 million in 2013. For 2014, adjusted net income was RMB38.9 million versus an adjusted net loss of RMB18 million for 2013. As a result, non-GAAP diluted earnings per ADS for 2014 was RMB1.46, compared with a non-GAAP diluted loss per ADS of RMB0.79 in 2013.

Excluding the one-time bad debt provision, we delivered profitability in 2014, a significant milestone for our Company and statement of our commitment and execution of long-term profitable growth.

Now let me provide you with our first quarter 2015 guidance.

Based on current business projections which include the continued migration of customers to our high-performance cloud caching platform, we expect our first quarter of 2015 revenue to be between RMB340 million and RMB350

million, representing 5 percent to 8 percent growth over the first quarter of last year. However, as the migration is completed and we return to advanced network infrastructure, we expect normal revenue growth throughout the remainder of the year.

For the full year of 2015, we are forecasting revenue growth in the range of 25 percent to 30 percent, which represents acceleration compared with the 25 percent top-line growth that we delivered in 2014.

Given the ongoing strategy initiatives discussed on this call, as well as our significant market opportunity, I remain very confident about ChinaCache's near-term and long-term growth outlook.

This concludes my remarks. Now let's open the call for questions.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key.

Your first question comes from the line of Liping Zhao of CICC. Please ask your question.

Liping Zhao: Good morning, Mr. Wang-zong, Ken and An-zong for taking my questions.

My first question is about the bandwidth cost. So what's our bandwidth cost as a percentage of our cost of goods sold? Because we know that there is a decrease in bandwidth pricing of the carriers.

And you also introduced that you are preparing for BSP platform. So, can we expect an improvement on our bandwidth cost? That's my first question. I will have a follow-on later.

Jing An: Let me start with the bandwidth cost question and Mr. Wang will add more colors after my answer.

So in 2014, our bandwidth cost as a percentage point of the revenue which is 56.9 percent, and last year in 2013, the bandwidth cost to the revenue which is

58.1 percent. We achieved 1 percentage point bandwidth efficiency improve. So that is coming from our operation efficiency and new super node project and HPCC. And in the near future, I mean in 2015, we have confidence that after the HPCC completed and our BSP platform launched, we think this kind of improvement will continue. And we expect in 2015 at least a 1 or 2 percentage-point decrease as a – bandwidth cost as a percentage point of the revenue.

Song Wang: (Spoken in Mandarin).

Female: Actually, now we have also realized that operators want to control the costs of the bandwidth and they want to raise the price a little bit. This is actually not bad news for us. Actually during the 2014 and for the first quarter of 2015, our bargaining power as well as the procurement capacity are increasing significantly. And as we expect, we could have more advantages in terms of the price.

Liping Zhao: OK, thank you. My second question is about our top-line growth, because Ken just talked about the development of HCPP won't be fully functioned by the fourth quarter of 2015. So, how should we expect the impact? Because in first quarter you have the guidance of 5 percent to 8 percent top-line growth, but should we expect a big leap from the second quarter or the third quarter?

Ken Zhang: I think as our platform HPCC will be fully functional in Q1 and most of our service will be (tapped over) during Q1 and Q2, and I think we'll actually – higher growth in – we can expect higher growth in Q2 and Q3.

Liping Zhao: OK, thank you. And my last question is about the margin, because we noticed, if we consider about the bad debt, if we don't consider about the bad debt, actually our margin improved like two percentage points this quarter. So, can we expect this to continue in 2015 and 2016?

Jing An: I think in 2015 we have confidence to continually enhance our profitability for the whole – I mean 2015 the whole year, yes – of course 2016, in the future.

Liping Zhao: So the bad debt is only this one-time, right? No further impact on, right, 2015, right?

Jing An: Yes. This is a single customer, independent issues.

Liping Zhao: All right, thank you. That's all my questions.

Operator: Thank you. Your next question comes from the line of Jun Zhang of Rosenblatt. Please ask your question.

Jun Zhang: Hi. Thanks for taking my question. I have three questions.

First one, for Jing, could you give us more color on the bad debt and how likely it's going to happen again in the future? That's my first question. Thanks.

Jing An: OK. We – in my remarks I mentioned that we implement much more serious measures to control the risk. Now we evaluate the customers very seriously and we put very strict payment terms, especially for the state-owned company. Because you know I don't want to mention – I don't want to see that happen of course, and we – and you can see that the government revenue contribution continually shrink in our pipeline.

Ken Zhang: Yes. I think ...

Jun Zhang: OK, great.

Ken Zhang: – this is Ken, yes. I think we actually discontinued the service in 2013 already. So as you know this is really an old issue. But now we actually, as An Jing said, the percentage from government entities is less than 1 percent of total revenue now.

Jing An: Exactly.

Ken Zhang: So we don't expect any similar case happen.

Song Wang: (Spoken in Mandarin).

Female: Actually we are fairly confident in controlling that case to happen again because this is an individual case, actually we have provided the service to

Jike.com before they have paid us because Jike.com is a subsidiary under the People.cn.

People.cn is a Web site under the People Daily. It's a big SOE. We have never predicted that they would not pay us. Because when we provide the service to Jike.com, the People.cn has given us their third-party guarantee, so we have provided them the service.

But I don't think this will happen again because ever since 2012 we have – really serious about the delayed party and we will control such case in the future. I don't think it will happen again.

Jun Zhang: OK, thanks. My second question is, could you talk a little bit about – more about IDC business and how big that business is going to be if you – assuming if you sell all your buildings in the next few quarters? Thanks.

Jing An: Let me start with an answer. I think now the IDC, our cloud data center, we designed 10 buildings. Among them, nine of the buildings is data center. And the first three buildings we already signed a contract to the customer – with the two customers. And the contract, the total contract of this two cooperation is RMB1.5 billion.

And it's the first stage of their project, but we will plan to hand over three to four buildings to our customer. But in the near future we will have other plan, or will depend on the market demand. We will look at the market demand.

Song Wang: (Spoken in Mandarin).

Female: I also have something to add. Now the market for data centers are really huge for us. After the successful closure of the two data centers, now I have found that many companies are waiting – are on the waiting list.

On one hand, if we sell all this data center, we can guarantee a smooth cash flow, but I don't think we could do that for the time, because perhaps we could operate those data centers by ourselves.

Jun Zhang: OK, thanks. So my last question is about – it's actually specifically for Wang-zong. I'll speak in Chinese and I'll translate into English.

(Spoken in Mandarin)

So my question is, as the valuation comparison with the China Net Center is getting bigger, the gap is getting bigger, so I'm just wondering if the Company has any plan to explore their strategic alternatives in the near future. Thanks.

Song Wang: (Spoken in Mandarin).

Jun Zhang: Thanks.

Female: Actually, do you need English interpretation or not?

Jun Zhang: Please. Thanks.

Female: OK. Actually you're not the first one who asked me this question, and it is not a new one, actually it is an old one. And I have three aspects to share with you. First, we'll continue to provide products, service and improve our scale in the long term. And second, we are really confident about the capture market. And for third, based on our understanding and achievements, we will explore further on the successful profit model for us. Thank you.

Jun Zhang: Thanks. That's all my questions. Thanks a lot.

Female: OK, thank you.

Operator: Thank you. As there are no further questions on the line, I would now like to hand the conference back to today's presenters. Please continue.

Female: Thank you for joining us today. Thank you all.

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