

- **MANAGEMENT DISCUSSION SECTION**

Operator

Ladies and gentlemen, thank you for standing by and welcome to the YY Incorporated First Quarter 2013 Earnings Conference Call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session, at which time, if you wish to ask your question you will need to press *1 on your telephone. I must advise you that this conference is being recorded today, Friday, 3rd May 2013. I would now like to hand the conference over to your first speaker today, Ms. Anna Yu. Thank you. Please go ahead.

Anna Yu: YY's IR Manager

Thank you, operator. Welcome to YY's first quarter 2013 earnings conference call. With us today are Mr. David Xueling Li, CEO of YY; and Eric He, CFO. Following management's prepared remarks, we will conduct the Q&A. Before we begin I refer you to the Safe Harbour statement in our earnings release, which also applies to our conference call today as we will make forward-looking statements. At this time I would like to turn the conference call over to Mr. David Li, YY's CEO.

David Xueling Li: YY's CEO

Thank you, Anna. Good morning and good evening, everyone. I'm pleased to report that we delivered another solid quarter in the first quarter of 2013. We've exceeded the high end of our guidance by 9%. Building upon our Company's momentum in 2012, we grew total revenue by over 130% and the non-GAAP net income by over 164% year-over-year. The increased scale of our business operations coupled with our ability to increase operation leverage and control cost resulted in expanded profitability and the margins during this quarter which Eric will discuss later.

With this we'd like to further discuss the two key area on today's call.

- First, let me start off by highlighting our robust large-scale real-time platform and its continued scaling and extension. We'd like to update you on our strategic focus for 2013.
- Second, our CFO, Eric, will discuss our continued monetisation efforts for following – for growing paying users and expanding monetisation opportunities. And,

First, we saw our strengths from our key operation metrics including user growth and user spending during our seasonally low quarter. We further grow our registered user by over 15% quarter-over-quarter or 75% year-over-year to over 526 million. Moreover, monthly active user on the YY Platform grew by over 28% year-over-year to 72 million users. Our mass user base continues to stimulate the addition of new and innovative entertainment and educational channels which increased our quarter-over-quarter by over 20% to 16 million channels overall. In addition, our YY mobile app was installed over 11 million times during this quarter, a quarter-over-quarter increase of over 16%, bringing the total installation to 39 million.

Our robust growth in those key financial and operation numbers continue to [diversify?] the network effect in hand inherent in our large scale, real-time, and [speedy?] platform. Going forward, we will continue to diversify and strengthen the content of YY Platform and expanding in to new verticals and introducing new products across PC and mobile devices to adjust the increasing entertainment and real-time social demand in China.

Now, I would like to update you on our strategic focus as we look forward. We recently launched the beta version of a new YY music interface. This new interface significantly improved user experience by creating a more realistic concert screen as well as making it easy for users to use. Those new feature will help keep user plugged in to YY music shows longer as well as a chat browser user base.

On the education front, we have taken some additional new steps in building out our education offering by focusing on the English testing market by partnering with several widely famous English teacher in China. Our initial goal here is to deliver an effective and efficient online learning experience which foster even greater interaction among the students and the tutors.

On the gaming front, we have spent our efforts to 92 titles and continue to add new games on to our platform. This extension continues to help us to convert our large active user base into paying users. Last but not least, we aim to continue expanding the penetration of Mobile YY as well as time usage by further developing and expanding our music and gaming options. Mobile YY will soon adopt a much simpler interface to better facilitate live video [beam?] and the chatting abilities for gamers, music lovers, and other users for YY Platform. Through this cost, we will continue to leverage our core tax advantage for enabling large scale real-time online communication. This will allow us to strengthen our value proposition by further enhancing the cross-selling opportunities with our massive user base and continue to capture the reaping consumptions of interactive online entertainment that is both enhancing and affordable to all Chinese Internet users.

At this point, let me hand over the call to our CFO, Eric.

Eric He: YY's CFO

Thank you, David. Good morning everyone. To begin with, I'm pleased to share with you that our multi-user growth and diversification continue to progress well.

A couple of highlights in particular for this quarter; first, our paying user based on YY Platform grew by over 35% year-over-year to over 1 million. In particular, the number of paying user for YY music increased 115% year-over-year and a number of members for our membership programme increased by 159% year-over-year. We believe that expansion in paying user is particularly important for us as we remain focused on cultivating and strengthening user consumption habits for online interactive entertainment. During this process, we may experience fluctuation in average revenue per users or ARPU for certain business due to the volatility associated with the user discretionary spending. But we believe that we can continue to facilitate growing conversion from active users to paying users. With our paying users still accounting for less than 2% of total active users, we believe we have ample upside potential for growth over the long term.

Secondly, YY music continue to be an important growth engine contributing to 37% of total revenue in the quarter, up from 25% a year ago. Moreover, YY music has been substantial and successful foray for us into increasing user penetration as well as exploring various monetisation methods beyond our initial virtual item-based monetisation..

During this quarter, we hosted a couple of large-scale live musical events around Chinese holidays including our 'we are together' audition in January and 13, 14 which translate into 'Love You With My Whole Life' events on January 14, and the Valentine's Day theme events in February. These high profile events help us attract huge audience participations, while further fostering strong bonds between our performers and fans. In addition, through these events we were able to utilise several innovative monetisation formats such as entitlement rights, sponsorship advertising, and online advertising. For example, we introduced featured

bouquet to our virtual gift portfolio of the 13, 14 events, which drew immediately applause from our users and help us at over 130,000 new paying users for the quarter.

The Valentine's Day them events were another prominent catalyst for us for the paying user conversion. Although February is the shortest month throughout the year, the number of our paying users increased by about 5% over the previous month, primarily boosted by these events.

Now, moving to our quarterly financial highlights. Before I get started, I'd like to clarify that all financial numbers we are presenting today are in Renminbi amount unless otherwise noted.

Net revenues for our first quarter 2013 increased by 130.5% to RMB315 million. This increase was primarily driven by an increase in IVAS revenues, and to a lesser extent increase in the Company's online advertising revenues.

IVAS revenues increased by 143.8% to RMB282.8 million. The overall increase primarily reflected an increase in ARPU and an increase in the number of paying users. Let's look at each IVAS business lines more specifically.

- **Revenue from online games** increased by 92.3% to RMB132.3 million. This increase primarily reflected an increase in ARPU of 50% to RMB315 million from 420,000 total paying users; and an increase in a number of online games to 92 during the first quarter of 2013, from 58 in the first quarter last year.
- **Revenue from YY music** increased by 245.9% to RMB116.8 million. This increase primarily reflected a 60.5% increase in ARPU to RMB236 and 115.2% increase in the number of paying users to 495,000 during the first quarter 2013.
- **Revenue from others**, increased by 150.8% to RMB33.7 million. Revenue from membership programme increased by 165.4% to RMB28.1 million. This increase primarily reflected a 158.8% increase in the number of members to 546,000 members as of March 31st, 2013 from 211,000 as of March 31, 2012.

Online advertising revenues increased by 55.7% to RMB32.2 million in the first quarter 2013. This increase reflected a 84% increase in average revenue per advertisers to approximately RMB644,000 from 50 advertisers.

Cost of revenues increased to RMB145.7 million, which was primarily attributable to an increase in revenue sharing fees to RMB56.1 million in this quarter, from RMB7.9 million last year. This increase in revenue sharing fees to performers, channel owners, and content providers, was primarily associated with the increase in promotional music activities on YY Platform. Revenue sharing fees consist of music-related; game-related, and open-platform related sharing cost, which music-related sharing cost as predominant components of it.

As you can see, our growth in the top line and users has been quite strong. But at the same time, we have been able to manage our bandwidth cost through better allocation of bandwidth resources and technological improvements. As a result, bandwidth cost only increased by 47.7% in this quarter to RMB43.6 million year-over-year. For the second half 2013, we expect the growth trajectory of bandwidth costs to trail closely with data revenue, as we will expand video functionality to further improve user experience.

Gross profit increased by 150% to RMB169.3 million. Gross margin increased to 53.7% in the first quarter of 2013, from 49.5% in the same quarter last year. This margin increase reflects the improved cost efficiency driven by our Company's increased scale as well as our ability to control bandwidth cost.

Our non-GAAP operating income in the first quarter 2013 increased to 159.9% to RMB82.6 million. Non-GAAP operating margin increased to 26.2% in the first quarter of 2013, from 23.3% in the same quarter last year. The increase in operating margin was primarily due to increased operating leverage associated with our Company's expansion.

GAAP net income attributable to YY Inc. increased significantly to RMB63.9 million from RMB3.5 million in the same quarter last year. GAAP net margin in the first quarter 2013 increased to 20.3% from 2.6% in the same quarter last year.

Non-GAAP net income attributable to YY Inc. increased by 164.2% to RMB82.1 million, while non-GAAP net margin expanding to 26.1% in the first quarter of 2013 from 22.7% in the same quarter last year.

Diluted net income per ADS in the first quarter 2013 was RMB1.11 or US\$0.18 compared to a diluted net loss per ADS of RMB2.22 in the same quarter last year. Diluted non-GAAP net income per ADS in the first quarter of 2013 was RMB1.42 or US\$0.23, compared to diluted non-GAAP net loss per ADS of RMB1.19 in the corresponding period of 2012.

For the second quarter of 2013, we currently expect our net revenue to be between RMB335 million and RMB345 million, representing year-over-year growth of approximately 78% to 84%.

This concludes our prepared remarks for today. Operator, we are now ready to take some questions.

- **QUESTION AND ANSWER SECTION**

Operator:

Ladies and gentlemen, we will now begin the question-and-answer session. If you wish to ask a question, please press *1 on your telephone keypad and then wait for your name to be announced. And the first question comes from the line of Timothy Chan calling from Morgan Stanley. Please ask your question.

Timothy Chan, Morgan Stanley:

Good morning, everyone, congratulations on a very strong quarter and thanks for taking my questions. My first question is on your mobile traffic trend, we would appreciate if you could give us some update on that one? And are you seeing your PC traffic growing along with your mobile traffic and any plans for mobile monetisation this year and I have a follow-up question? Thank you.

Eric He:

Well, I would answer the traffic question because I know the numbers. I will allow – I would like to ask David to answer the mobile monetisation and the strategy overall on the second part. For mobile traffic, it has been growing very nicely, as David actually mentioned earlier, our monthly active users has grown to more than 12 million currently in the first quarter of 2013, which is representing a, you know, 16% increase Q-over-Q. So the traffic on Mobile YY actually is doing well. I would like to ask David to answer the mobile strategy and if we want to do monetisation later in this year.

David Xueling Li:

对，这个、第一个就是说我们这个手机其实还是会继续投入更大的精力，来改进我们的这个手机版本。事实上我们这个大概应该在这个，呃，5月17号就能够发送一个新的版本到这个、这个、这个苹果的 app store 进行审核。预计大概两到三周之后审核完毕的时候，我们能够发出这个、这个一个新的版本。那么这个版本呢其实我们就更多地强调了我们的这个音频和视频的这个互动的这个应用性，和这个手机作为一个这个播出端的这样的一个这个功能。对，我们希望呢手机不仅仅是一个这个内容的一个消费端，更希望这个手机能够变成一个内容的生产端。对，这是我们目前的这个关于手机方面的这个产品的这样的一个策略，对。

Eric He:

Yes, I think we will put in a lot of efforts and focus on further improve our experience on Mobile YY. And, specifically, we would like to actually submit our iOS version of a newly revised Mobile YY on May 17th to Apple. We estimate that it would take two to three weeks for the new version to be approved by Apple. So by then we will have a new version of Mobile YY, which will allow audio and video experience even more easily being present on Mobile YY, which can allow people to have access to good contents and use audio and video functionalities. We believe that Mobile YY shouldn't be just a consumption of contents. We believe Mobile YY should be able to help our users to create, to manufacture, to produce contents for them as well.

Timothy Chan:

Thank you. My second –

David Xueling Li:

为了，sorry. 呃，我现在回答第二个了。就是说这个为了帮助我们的其实这个丰富这个整个社区的内容和形成整个社区的这个经济循环，所以我们应该这个、等我们这个版本全部发布稳定之后，我们应该在第三季度或者是第四季度，为用户打开这个手机付费的和手机的这些礼物的这些通道。对，作为一个这个新的这个手机上付费的尝试。因为我们相信我们在 PC 上已经拥有的这些账号和账号里拥有的这些现金，对，其实是让这个用户很容易的可以使用这个移动的设备来做同样的事情。

Eric He:

Well, actually the monetisation of mobile business, we believe that the content is most important things we would like to make the content vibrant and we would like to make a lot of contents before we start our economical means to monetise our mobile contents. So we would like to see that ecosystem being built before we start to monetise. So the game plan is like this, after this new version being launched to the public, we will make sure that everything goes smoothly and operation is being done appropriately. So we would estimate in Q3 or Q4 we can easily turn on our monetisation on mobile devices because we believe on a PC end we have a lot of users actually already using YY accounts to send virtual items to have this monetisation or paying habits. We think it will be very easy for us to convert that onto mobile devices when that happens.

Timothy Chan:

Thank you. My second question is on your revenue mix as Web game has become the number one revenue source for YY again for this quarter. How should we think about the growth driver going forward? Are we going to see similar trends for this year where game sales would likely continue to be a stronger growth driver than your other businesses? Thank you very much.

Eric He:

Yes, thank you, Tim. Let me answer your question regarding this component of the revenue. I think Web game has been, you know, the largest portion of our revenues for as far as I can remember. In this quarter, Web game actually accounts for a little more than 40%. I believe that Web game business will continue to grow. We are very confident that this business is growing very nicely and very healthily; that's number one. But I have to point out that since we started to monetise on our music activities, as you can see the growth trajectory of our music business has been very, very strong, and actually surpassing that of game business. So I will see that trend continue to happen. So as you can see, that percentage of our music business actually has been increasing. In this quarters, our music business accounting for more than 30 – close to 40%. So those two, music and game, will become the most important items of our revenue compositions. So we expect that continue to happen.

Timothy Chan:

Thank you. That's very helpful.

Operator:

And the next question comes from the line of Ravi Sarathy calling from Citi. Please ask your question.

Ravi Sarathy, Citi Bank:

Hi, yes, it's Ravi Sarathy from Citi. Congratulations gentlemen on a great quarter; would love to have a couple of questions if I may. The first one is, why don't you give an update, if possible, on your progress around some of your new monetisation activities particular around education. I know you've been doing a lot of work in developing the platform and the products for that. I was wondering if you might share with us some qualitative, and if possible, some quantitative data point in terms of how that's going and what your feeling is around monetisation traction as well as user traction for that new set of services.

The second question that I have is around mobile and particularly around – you mentioned that you – that – you mentioned that you have titles to launch in iOS. I was wondering what kind of revenue share you expect to see on your iOS-based app, would it be the standard 70-30 that you see for global app stores. Those are my two key questions.

Eric He:

Yes, Ravi, I would like to direct the question to our CEO, David. David, please?

David Xueling Li:

Okay. 谢谢啊，第一个我想谈教育问题啊，就是说这个、第一个我们认为哈，这个在线教育，实际上现在这个我们已经看到是大势所趋了。对，这个在线教育能够带来的这个教育的体验，经过我们最近的一段的研究，我们发现一个用户一旦这个开始使用在线教育的这个、这个体验的时候呢，其实他很难再回到传统的教育。比如说在线教育这个关于时间的弹性；关于一对一的这个老师教学的这些便利性，都是线下教育这个不可替代的；甚至关于这个上学的这个同学的关系，同学的这个关系的维护和这个同学关系之间的这个便利性，也是线下教育目前其实比较欠缺的。所以呢，我们认为这个、这个教育经过这些优势以来呢，所以教育应该是一个这个高速成长的业务。那么我们目前呢，实际上是这个、这个全力推进我们这个在教育领域的这些步伐。但是呢总、总体来讲我们目前在这个教育的这个阶段确实还是一个比较早期的阶段。对，但是呢，在我们这个工、内部工作的这个时间表上来讲呢，我们是以天为单位，按照自己的这个目标，然后在推进这个业务的这个前进。

Eric He:

To answer your question that, Ravi, I think online education has been so apparent that it become a very significant trend for the tutors and students, simply because the user experience. Once you have tried a good online education experience, it will be very difficult for you to go back to a brick-and-mortar type of experience. Simply because that when you have this online education experience then you would have all those time flexibilities meaning that you can actually have tutors to teach you at any time that you want or anytime you reserve or for our online education one-on-one becomes very natural – becomes very feasible.

Not only that, we can actually create an environment that allow students and tutors to interact very closely, which you will find very difficult on brick-and-mortar models. So we expect that online education will become a fast growing business for us into the future. But we also know that we are a new person or new kids on the block. We – it's still at a very early stage and however we are promote – we are working on this project on a daily basis. We actually plan our strategy and our things on the daily basis. We think that at this moment we are achieving our goals and – but at this moment we still believe that we are at the early stage of development of our online education for YY Platform. 第二个是 mobile 就 iOS, 呃, 如果我们要、呃, 开始 iOS 的话, 我们的 revenue share 是不是跟这个正常的 revenue share 一样, 就是说, 就是跟那个苹果的分成, 就是说我们开始 monetise 的话, 这个应该.....

David Xueling Li:

应该这个我觉得, 第一个就是说我们现有的这个模式是这个用户是直接向我们付费的, 并不通过苹果。但是呢 iOS 这个上面如果开启付费的话, 是否要通过苹果, 还是说用户只要通过支付宝就可以直接向我们支付, 那这个我们可能还要再研究一下, 因为我们以前没有相关的这个具体的执行的经验。

Eric He:

Yeah, I think for iOS version because Apple has its own policy in terms of revenue shares, we would certainly respect that. However, we have not actually started monetisation on iOS version to our Apple store. So we do not have the specific experience. But in the past, our experience told us that our user should be able to buy virtual items directly paid to YY. And we will expect – we will explore if that monetisation technique is still workable under the Apple systems. This remains to be seen.

Ravi Sarathy:

Thank you very much, guys. That's great cover, fascinating and congratulations again.

Eric He:

Thank you.

David Xueling Li:

Thank you.

Operator:

And the next question comes from the line of Alex Yao calling from Deutsche Bank. Please ask your question.

Alex Yao, Deutsche Bank:

Hi, good morning and good evening, everyone. Thank you very much for taking my questions. I have two questions. Number one is on the APA, active paying accounts. We noticed there is a very strong growth momentum of APA across the board. Is it fair to say that our promotional activities in the events that you guys

launched during the quarter was the primary driver of the APA? Specifically, we also noticed that music shares as a percentage of total music revenue continue to ramp up over the next – over the past several quarters. So did you guys increase the payout ratio to encourage the performers' monetise harder? The second question is also on APA side. We noticed that there is an increasing trend of increasing trend of – increasing degree of overlapping paying users across the three products – music, membership, and the gaming. Have you guys introduced any cross-sell mechanism to encourage buying multiple products across the platform or is it just a natural result of user activities on the platform? Thank you very much.

Eric He:

Yeah, thank you, Alex, for your questions. I will take your question now. In terms of paying users, as you pointed out, yes, we do have – we did have a very strong momentum on our paying users in the first quarters. We believe that's a direct result of some of the activities that I mentioned in the transcripts, especially during the Chinese Holidays and also specifically for the Valentine Theme events. Yes, those are very attractive, actually helped us to ramp up music-paying users significantly as I pointed out, correct.

In terms of overlapping of paying users for different activities – music, games, and VIP members, we do not actually see, you know, increasing overlappings at this moment. So I think the most overlap services between all those paying users are the VIP membership and music-paying accounts. Those overlapping, you know, percentage is around 9%. So others, it's less than 5%, other overlapping percentage is over – less than 5%.

In terms of music growth, as I mentioned it in previous questions, we have experienced strong growth on music revenues over the course of last couple of quarters. I think this trend continue to be true. And as you pointed out that the percentage of music revenue has accounted a larger pie in the overall revenues. We do not actually pay out more to the entertainers and account providers. I think our cash payout ratio is still at around 35%. So, we do not think that that is a direct result of our increased revenues on the music part. I think the music revenue has been growing very healthily and very strongly because that we have a very unique, very good contents to attract users to come to enjoy our activities and at the end of the day they are willing to pay for the music activities as well.

Alex Yao:

So if you maintain the cash payout ratio at a 35%, why does the accounting music – your payment fee fluctuate particularly in the past several quarters is actually trending up to a current set of 40 something percent?

Eric He:

Right. As I believe, I mentioned that as well in the last conference call. Our paying cash payout ratio is 35%, which has been – remain very stable. But on the financial statement basis you will see that the payout ratio for music is a little bit higher, it is because that we have deduct the deferred revenue from music revenue because every quarters we will have some services which is not being finished on the music activities. So those service not be rendered will have to be deferred on an accounting basis. So when that happens you will have smaller denominators on the music revenue. So your numerator, which is your shared music cost, and if that remain constant and because we pay that every quarter, never defer that.

So when that payout cost exist on the current quarter, but some of the revenue couldn't be recognised in the current quarter where we have to defer to next quarters and then you will see that percentage of the music share costs as a percentage of revenue will go up a little bit. I think that is very natural and normal.

Alex Yao:

Got it. That's very helpful. Thank you very much and congratulations on a very solid quarter.

Eric He:

Thank you.

Operator:

And the next question comes from the line of Mark Zgutowicz calling from Piper Jaffray. Please ask your question.

Gene Munster, Piper Jaffray:

Hey, good morning, it's Gene Munster here, and just wanted to follow-up on some of the other comments you had in terms of the margin trend. Can you just talk a little bit about the difference in margin between games and music and just how we should think about that turning forward? I know you just talked a little bit about music, but just from a high-level difference in games versus music and how we should think about those two margins turning over the next several quarters?

Eric He:

Hi, Gene, well, thank you for the questions. I think as to the margin questions for different business, on the YY Platform it – we have never disclosed such detailed margin information. The reason being that for our game business, we use net revenue as our accounting revenue recognition methods, which means that we will take out the 70% which we will – given to us as our net revenue of the game revenue.

Whereas on music revenue, because we are the principal, we have the controls on the servers. We are the person who created all of those virtual items. We actually set a price for all those virtual items for music activities.

According to U.S. GAAP, we will have to use gross revenue recognition methods to account for music revenue. So, when we receive \$100 on the music activities we will have to book that as our revenue on a gross basis. So, then in that case for anything that we share with the entertainers, then it will – goes to the cost of service item lines just like the previous questions. So, in that sense, if you compare the game margin and music margin is a little bit of misleading, because game revenue we recognise it has as net revenue. So, music revenue we recognise as growth revenue, so it will be difficult to compare with and that's the main reason for us not to disclose all of those very detailed numbers at this moment.

Gene Munster:

That's helpful. But just in terms of going forward, you don't see any changes to that obviously?

Eric He:

No, because that is not a option for us. That is required by U.S. GAAP. So we will have to use the same methodology to book our revenue in the future as well.

Gene Munster:

Understand. Thank you for explaining that and congratulations.

Operators:

And the next question comes from the line of Yu-Heng Fan calling from China Renaissance. Please ask your question.

Yu-Heng Fan, China Renaissance:

Hi, good morning, and thank you very much for taking my question. Can you guys please – maybe you can elaborate more in terms of the content expansion and the diversification and also product development for the YY music that will help YY to attract more dimension user as well as video-item spending?

Eric He:

Yu-Heng, your first question is content expansion is what you mean?

Yu-Heng Fan:

Yeah, content expansion, the diversification that will address the increasing demand for the – for YY music?

Eric He:

Yes, let me just translate the question a little bit and ask our CEO David to answer that.

Eric He:

David, 他就是说想要了解一下我们在、呃，整个 YY 平台上面，内容、呃，的扩展型。就是除了现在的内容，就是还有没有其它的扩展型。还有我们音乐的这个产品，最近不是也有一些新的歌曲推出来了嘛，新的 Beta version，音乐的产品，就是对于这些产品的改进，产品的这个易用性这些东西，你有没有什么[inaudible]这方面问题，要不请您回答一下。

David Xueling Li:

这个可能会比较涉及到一些细节问题啊，就是说比如说我们在音乐方面的这个改进，其实是这个这次这个出了一次这个、这个 Beta 测试，其实有大量的这个用户已经使用过了。我相信，我们也有一些分析师进、进去看过了。其实我们这一次的改进呢，实际上是使音乐的这个现场感会变得更强烈，就是说有更多的人能够像这个真正的一个音乐会现场一样的来体验这个 YY。然后呢同时呢因为我们的这些改进呢，我们其实给用户带来了很多新的便利。

第一个就是说，第一个我们这个因为这个整个用户采取了这种分区的这种结构，使得我们对用户的限制变得更低了。因为以前这个几十万人在一个场景下的时候，我们对说话呀，对这种发言啊的这个管制是非常多的。那么这个当我们分区了以后呢，这样的话呢，每个用户大概只能看到身边的几百个人。那这样的一个情况下呢，我们就使得他们的这个发言的这些便利性，互动的这些便利性得到了极大的提高。

对，另外一个呢它还可以这个很容易地看到身边都有哪些人，并且呢能够跟这个身边的人进行交流。我们经过了实验以后呢，发现这个在、在一些音乐会的场景的情况下呢，使用我们新的这样提供的这种音乐模板呢，实际上带来了这个意想不到的好的效果。所以我想这个会给这个公司的这个音乐用户带来一些持续的这个、这个体验上的改进。

Eric He:

First, I think we will – would like to actually address a little bit of our improvement on YY music interface. As David mentioned that in his script that we recently launched a beta version of our music interface, which I think is mainly designed to have a more realistic concert scene type of experience. So that actually facilitate people to communicate, to talk to each other and also we divide people into hundreds, so that people will

have the chance to see who are beside them, who are around them, so they will have their opportunity to interact around those neighborhoods. So we have tested that. We have seen that it has created very good results. So we believe that with that interface being perfect into the future and we would like to see our music users can be more satisfied with our new music interface.

David Xueling Li:

说到这个、这个 YY 上的内容啊，这个我想简单，第一个我想这个我们整个公司其实并不是直接生产内容的人，我们只是在平台上发现好的内容，然后呢并努力地帮助这些内容获得更多用户的了解和认知。对，然后呢，以、以促使这个一个类型的内容这个繁荣。

对，所以其实在我们最近其实看到了很多新的例子，比如说虽然 YY 的这个手机端，还没有这个提供播出的这个、这个能力啊，但是呢我们看到了很多的这个人、人，使用 PC 端，然后插着移动电话的这个网络，对，然后呢这个把这些表演延伸到现实的，比如说在街头的表演啊，延伸到这种街头啊，延伸到现实生活中去，对，所以其实这些东西都是促使我们要加快这个移动、移动设备的这个研发，并且能使移动设备更方便地帮助他们，能够播出任何他们现实生活中的这些场景。对，这些我想都是我们内容未来的延伸的方向。

Eric He:

Well, in terms of the content expansion, I believe we want to point out that YY is a platform who do not actually produce or generate all those contents, because all those contents are generated by our users. I think we are in a position to make our user understand or recognise or use those user-generated contents more freely, more easily that is our position. So we are not the person who actually create the contents. To be specific, on the mobile side, we have seen that you know, a lot of people actually using mobile phone to have the live shots of their experience while they are on a bicycle or doing something. So we believe that that will become a very interesting vehicle for YY to cut in to actually to have that live scenes to be watched or to be viewed by all the users on PC and mobiles in the futures.

Yu-Heng Fan:

Thank you. That's very helpful. And I have a follow-up question for your Web game. I think you added quite a few game titles during the quarter that helped you grow both ARPU and paying users; what's in your pipeline for the rest of the year? Thank you.

Eric He:

I'm sorry, Yu-Heng, you said ARPU and what is the question again, can you repeat it again?

Yu-Heng Fan:

Yeah, sure. I mean, you added quite a few online game title to your Web game portfolio. I just wondered can you comment on the – your plan for the pipeline for the rest of the year?

Eric:

He:

Oh yes, right, online game titles, yes we did actually have a increase in the first quarter in terms of online game titles; as you can see now it's more than 90 games. We expect that we will add more online game titles. At this moment, in fact, our online game business has been very diversified, meaning that we do not have any game to account for more than 15% of our total revenues, total online game revenues. So it's very widespread and we expect that that will continue to happen. So if for example in the first quarter we have seen some new games become the leading online game on our platform and we expect that for the rest of the

year we're going to see more and more game come along to YY platform because we are the platform will allow them or introduce the games to a lot of gamers and users for those game developers.

Yu-Heng Fan:

Okay. Thanks very much. It's very helpful. Congratulations on the results.

Eric He:

Thanks.

Operator:

Thank you. And the next question comes from the line of Ming Zhao calling from 86Research. Please ask your question.

Ming Zhao, 86Research:

Thank you very much for taking my questions. When I now look at your online advertising growth, you know, 56% year-over-year, is that significantly above the peers? When I look at your online games growth 92% year-over-year growth; that's also faster than the industry average by a big margin. So I'm just wondering with these two relatively more mature businesses out there, how can you achieve this kind of growth rate particularly on the paying business. And I understand you have more paying users, paying users spend more, but you got to have more gamers, right, or unless you've increased your conversion rate a lot to get this kind of growth. I just want to get more [cover?] about this kind of growth model? Thank you.

Eric He:

Thank you, Ming. I think you have very good questions. I would like to direct the questions to our CEO and I will follow-up with some answer as well. So I think that the question is – 就是说广告呢就是 online game industry 的成熟，industry 的相对成熟，那为什么我们的这个、这个成长会比他们高很多，有没有什么特别原因？

David Xueling Li:

我想第一个广告其实是在这个游戏、游、游戏市场这个，其实多玩呢，多玩游戏的这个市场地位，在很久以前其实就取得了这个业界最高的流量了。对，所以我们并没有认为，它是一个特别高速的成长。我认为现在的这个成长，只是这个市场在慢慢地认可我们以往曾经做过的这些事情，和我们以往获得的这些成绩。对，我想这个其实是一个这个、广告是永远会滞后于这个公司的成长的。对，所以其实现在我认为，现在是广告的成长只是一个这个我们以往做过的事情的这样的一个认可的过程中体现出来的一些数字，对。

Eric He:

Well, I think what David says is that a lot of people actually don't recognise that Duowan.com, which is a platform, generate our ad revenues, has been the highest traffic websites for gaming business for many, many years already. So I think game company – online game developers start to recognise that. So when they start to recognise that, we gradually actually come up with better results of that.

Let me actually add a couple of points on this answer. The number one point is that for our Duowan.com we not only actually take advantage of high traffic, we also would like to actually use Duowan.com as it facilitates platform for our YY platform.

We have a large user base so we will be able to deepen our relationship with the gamers and the game developers, and because of that we will be to sell good spots and help them to make their game known to a

lot of people. Secondly, it's because we have this music activities, which will diversify our advertisers. So we would actually do more and more – more of that in this year to attract more of the other advertisers to the platform to place ads, I think that's another reason why our ads growth momentum is better than the rest of the industries.

David Xueling Li:

我想讲一下游戏啊。那么我想啊，这个我们的游戏的这个业务的成长，很多人会误解，认为我们这个做游戏只是一个流量变现的一个渠道。实际上我想我们这么多年在做这个业务的时候，其实一直不是把它当作一个流向、流量变现的一个通道来做的。我们一直是认为我们的游戏的这个业务，实际上是一个用户服务。对，就是我们要为用户提供一个这个，用户在闲暇时间最好的一个这个服务体系，我们是按照这个服务的思想一直在做这个业务的。

我举一个例子啊，就是说讲明白为什么我们不是一个流量变现的通道。比如说我们其实为一个游戏用户想了非常多的这些服务，并且呢这个、这个研发了很多这些应用。有一个小的这个例子啊，就是说，假如说啊一个用户在玩儿一个游戏的时候，因为他这个要、要出差，所以呢他可能有十天、二十天不能上这个游戏了。但是呢在这个过程中呢，如果它这个长期不上呢，他的游戏里会有很大的损失。那么这个时候呢我们其实帮助用户研发了这样一个比如说账号托管系统。以前的那个方法是呢，用、用户把自己的用户名和密码给另外一个朋友，然后让他来代管一下自己的账号。但是这个时候呢会出非常多的纠纷啊、盗号啊，这些问题。

那我们呢只需要用户把一个这个、这个请求对方代管的这个、一个消息发给对方，对方不需要知道这个用户名和密码就可以直接在指定的时间和指定的时长之内，帮他代管这样的游戏账号。所以呢我想啊，这样的话其实是我们一直在做这些很细节、很细节的很多的用户服务，所以呢其实用户呢这个在使用 YY 的这个游戏平台的时候呢，不仅仅是因为流量的变现他们来到这个游戏平台。而是这样的游戏平台真的提供了其它、其它的这个游戏平台没有提供的东西。

所以呢游戏、很多用户是这样的，尽管他们知道其它的平台运营了什么新的游戏，他们都要等到说，欸，YY 上如果提供了我们再开始玩儿。对，所以呢，这样的这个尺，我们从一开始这个观念的不同和我们的这样的，所以能够造成，其实游戏的这个、游戏的这个大厅的这个用户本身其实就是一个用户自增长的这样一个产品，对。

Eric He:

Okay. We would like to point out that when we run our online game business we don't use our traffic as a means to make money, turn those Internet traffic into money directly. So we have seen a lot of websites just try to turn their traffics into money. Our philosophy is to provide user real service; user service is our key focal point for our game business. Let's just give you a example so that you know what I mean by that. When our users play our games, for example, he will actually been away for whatever the reason, being on business trip or doing something else, so they can be in absence for 10, 20 days, if that would happen, usually they – no one will take care of their game accounts. So, on our platform, we will be able to allow this person to use our babysitting game account system. We can babysit that game account, meaning that they can tell us in a certain period they will be away, so we will have a babysit system to allow them to maintain that account so that they don't need to actually ask friends of his or hers to take care of the account, because when that happens we often time found a lot of things, for example, the accounts being stolen or accounts being manipulated accidentally. So if they can allow us to babysit their game account and they will feel a lot safer.

So this is very small features that we try to provide additional service to our game users. So, as a result, a lot of users of YY although that there are lot of the Web games being operated in different platforms, they would like to see if YY Platform has that games. If we do provide that games, they will have a preference to use or to play the games on YY Platform because of all those user services that we provided to the gamers. Ming?

Ming Zhao:

Okay, that's very helpful. Yes, thank you.

Operator:

And the next question comes from the line of Ethan Zhao from J.P. Morgan. Please ask your question.

Ethan Zhao, JP Morgan:

Hi, good morning, David, Eric. Thanks for taking my questions. The question is about the – your guidance, 2Q guidance, the year-over-year growth kind of slowdown a bit from first quarter. So I'm just wondering if you guys can provide any colors on – the underlying factors behind that, is it just because of the seasonality or any other factors that we should pay attention to? Thanks.

Eric He:

Well, in terms of second quarter's guidance I think it's very normal and we think the business has been very robust and growing very strongly. I would like to remind you to go through our last conference call when we reported in the fourth quarter's revenues last time our fourth quarter revenue was RMB226 million and we gave a guidance of RMB280 million to RMB290 million for the first quarter of this year. Of course, we significantly outperformed that numbers. This quarter we reported RMB315 million for the first quarter's revenue.

So, we give you a RMB335 million to RMB345 million guidance in the second quarter; if you use your calculator to calculate that, I think that percentage wise there is no weakness at all. So, we have seen that our business has been growing very strongly, very robust and so we are very optimistic about our future.

Ethan Zhao:

Great. Thanks.

Operator:

Next question comes from the line of Jim Bao calling from Yiheng Capital. Please ask your question.

Jim Bao, Yiheng Capital:

李总，Eric 你们好，我想问一下，就是那个 music，music deferred revenue 是 account 是多少？在总的 deferred revenue 里边？

Eric He:

Music, the deferred revenue settlement 在我们，我们这一季—Okay, let me answer this question. Let me translate the question first then I answer. Well, the question is that what is the specific deferred revenue for music business. I think I would like to say that for the first quarter, our total deferred revenue balance is more than RMB210 million; among all those we have actually not disclosed details as to different items. But I will say that deferred revenue consists of game – consist of the game business, consist of music business,

consist of membership business. In terms of music, it's not the highest one. Our music revenue, the deferred revenue of music accounts more than 20% of the total deferred revenues. So, yeah.

Jim Bao:

Okay, great. So I'll ask the next one in English. So what was the – you mentioned that mobile, I mean, your monthly active user was RMB12 million for the first quarter; that's a very nice number. I'm just wondering what's the total music monthly – MAU number including the PC, what's the total number – PC and mobile together?

Eric He:

Our YY MAU is about RMB72 million. The RMB72 million does not include the RMB12 million MAU numbers from mobile at all. So – however, it will be a little misleading to add those numbers together, RMB72 million plus RMB12 million, because there is some overlap. At this moment, while I haven't had the overlapping percentage at this moment, so I cannot answer specifically what is the total number combining PC and mobile – however, I will have to point out one more time that RMB72 million MAUs does not include the RMB12 million mobile user or mobile MAU.

Jim Bao:

Next question is you said bandwidth cost would grow in line with revenue in the second quarter, are you're talking about year-over-year growth rate or Q-on-Q growth rate?

Eric He:

No. I think if you listened carefully, I have – premises for that is for the second half of 2013, I said that growth rate of bandwidth will trail closely to our revenue growth and I don't think bandwidth cost increase will be nearly close to revenue growth on a year-over-year basis because for the second half we will launch our video functionalities on many fronts. So, I expect that our bandwidth costs will grow in tandem a little bit more but I don't think it's going to be explosive growth. So, I would say it will trail closely to the revenue growth for the second half of 2013.

Jim Bao:

Okay, the music revenue growth, right??

Eric He:

No, no, no, trail closely to the total revenue growth.

Jim Bao:

Okay. And my last question is you almost doubled the number of games year-over-year, do you think that by the end of your first quarter you can also achieve that thing kind of a doubling versus the first quarter of last year?

Eric He:

You're talking about game revenue?

Jim Bao:

Oh no, the number of games. This –

Eric He:

The number of what?

Jim Bao:

– quarter you have 92 games.

Eric He:

Oh, oh, oh.

Jim Bao:

A year ago it was 50 something, 51 if I remember. My question is at the end of the first quarter this year, basically, how much – how many more games do you think you can introduce to the platform?

Eric He:

Well, I think our effort has been very clear that we would like to add more games to our platform. However, you have to realise or we have to realise that quantity is not the only factor that we consider. I think quality is even more important because if you want to put in to 100 to 200 or even a couple of hundred games onto the platform it wouldn't be a very difficult things because there are so many games out there in China.

However, we have a very close screening and filtering system. We would take on the game that we like. We would take on the game that our user would like. So, we are very selective in terms of game selections. So, while we will increase our game portfolios but we are not going to increase that on a dramatic manner because we want to make sure that our platform has a very precious, you know, room for good games, not for every games.

Jim Bao:

Thank you. Congratulations on the first quarter.

Eric He:

Thank you.

Operator:

And the next question comes from the line of Eric Qiu coming from Guosen Securities. Please ask your question.

Eric Qiu, Guosen Securities:

Good morning, management team. Thank you for taking my call. I have a few numbers to ask. One is regarding to the VIP accounts. How many VIP paying members for Q1 and is the monthly fee still RMB20? That's my first question. The second question is regarding to the mobile, what's the daily active user and the monthly active user for Q1? Thank you.

Eric He:

In terms of VIP membership, the business has been growing very, very strongly. At the end of last year, we have a little more than 0.5 million paid VIP members. At the end of the first quarter, that number actually grew to 546,000 by March 31st, 2013. We have maintained our VIP monthly dues at RMB20 for a long time. We do not actually have any plan to change that. So, that – this business has been growing very healthily, very nicely.

In terms of mobiles DAU and MAU numbers, I think, we disclosed the MAU numbers is over 12 million in the first quarter of 2013. But however, we have not actually disclosed any DAU number at this moment. On a Q-over-Q basis, MAU numbers actually grew by 28% from the fourth quarter of 2012.

Eric Qiu:

Okay, thank you. My last question is regarding to the mobile – sorry – to the online games. I've noticed the ARPU grows to 315 in Q1 in profit but if – and across to Q4, Q4, I think it's 266, last on Q3 it's 296, is there fluctuations or it keeps growing? Thank you.

Eric He:

The ARPU number for the game in the first quarter is 315. Yeah you are correct. The fourth quarter was 266; third quarter was 296. We think that, as I mentioned, that that ARPU number may fluctuate quarter-by-quarters because it would – depends on the revenue growth lines compared with the user numbers growth line. Sometimes revenue grow a little faster or we have a very popular games and you will see that revenue line will grow a little bit faster so that will – resulted in ARPU being a little bit higher than the previous quarters. But I don't think that is going to be a consistent trend into the futures. So, I will say that in the second quarter or in the future quarters, you may see some up and downs for those ARPUs. We think that our online game business has been very diversified, has been very healthy. So we are very optimistic about our online game business.

Eric Qiu:

Okay, that concludes my question. Thank you. Congratulations.

Eric He:

Thanks.

Operator:

With no further questions in queue, I'd now like to hand the call back across to Mr. Eric He for closing remarks.

Eric He:

Hi. Thank you very much. Now we conclude today's conference call. Thank you.

Operator:

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]