



- **MANAGEMENT DISCUSSION SECTION**

Operator:

Good day everyone and welcome to YY's third quarter 2013 earnings conference call.

At this time all participants are in listen-only mode. We will be facilitating a question and answer session towards the end of this conference call. Before we begin, I will read the safe harbor statement. At this point, I would like to turn the call to Anna Yu, YY's Investor Relations manager.

Anna Yu - Opening Remarks and Safe Harbor Statement

Thank you, operator. Welcome to YY's third quarter 2013 earnings conference call. With us today are Mr. David Xueling Li, CEO of YY, and Mr. Eric He, CFO. Following management's prepared remarks, we will conduct the Q&A session.

Before we begin, I refer you to the Safe Harbor 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 now like to turn the conference call over to our CEO Mr. David Li.

David Li –Overview and Strategic Highlights

Thank you, Anna. Good morning and good evening, everyone.

We are pleased to report another strong quarter that saw robust performance both operationally and financially as well as strong progress in key strategic areas which will support future growth. In the third quarter, we saw aggregate monthly active users increase by 4% quarter-over-quarter to 87.2 million. We began to use this metric last quarter and believe this metric provides a fuller picture of our overall platform engagement, interaction and reach. With the expansion of our platform and success of several recent initiatives, we have been able to greatly increase our revenues by over 113% year over year and net income by over 267%.

Allow me to further outline the key areas of focus for today's call.

- First, the strong growth on our music platform, which reflects both the advantages of our business model and the success of our recent collaboration with Hunan TV's Happy Boy show;
- Second, YY Mobile client as well as new verticals and initiatives going forward;
- Third our CFO Eric will update you on the continued development of our gaming platform;
- And lastly, Eric will go through our third quarter financial results in detail.

Getting started, our collaboration with Hunan TV's Happy Boy show was a great success and helped to contribute to the overall outperformance of our YY Music platform. Initially we had expected this event to be a good experiment for YY and help broaden our user base appeal. We aimed to learn the necessary content production skills to host similar events in the future as well as improve the interactive capability amongst users and channel hosts, which would help to improve revenue generating capabilities. Not only did we learn a lot, but we also were able to attract a significant number of new paying and non-paying users to our platform. In fact, we increased our music paying users by over 117% year over year to over 770 thousand. The heavy growth on the music side supported overall YY Client paying user growth,

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which reached 1.3 million, growing at a rate of 48% year over year. Additionally, this collaboration has paid some intangible dividends: it has deepened the YY interactive experience and user culture as well as elevated our brand reputation in China.

On the Mobile YY front, we saw monthly active users of our mobile platform increase 19% quarter over quarter and 94% year over year to over 17 million. Average monthly installations for the quarter increased 78% year over year to 4.6 million per month. This performance allowed us to begin monetize on this platform in multiple ways during the quarter. In addition, we launched our mobile gaming platform and are actively building up our gaming portfolio. In this beginning stage, we remain more focused on the development of the platform and expansion of its user-base. As we head into 2014, we will continue to focus heavily on strengthening our monetization efforts on the mobile front.

On the education front, we have also continued to explore opportunities and develop capabilities for this vertical. We continue to see strong growth in the number of teachers on the platform, which increased by 29% quarter-over-quarter reaching 125 thousand. We are confident both in the long term growth prospects associated with the online education sector in China as well as our internal capabilities to successfully expand deeper into this vertical. Consequently, we are committed to exploring options and making strategic investments at the right time and upon the right opportunity.

Lastly, as you have read earlier, we have announced the resignation of our CTO, Tony Zhao. Even though Tony will no longer be our CTO, we are excited to partner with him in a strategic partnership that will be based in Silicon Valley and will be focused on leveraging YY's strong real time interactive platform to help us expand into promising new verticals internationally. We look forward to working with Tony in this new capacity as well as his continued input on the Company's board of directors and as the Chairman of YY's Technology Committee.

Going forward, our continuing strength across all platforms coupled with our recent initiatives to diversify into new verticals and enhance user experience will allow us greater opportunities to monetize our offering and achieve robust financial growth in the quarters and years to come.

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

Eric He – Financial Results

Thank you, David. Good morning everyone.

To begin with, I would like to discuss the development of our gaming platform and growth initiatives in greater detail. For the third quarter, we saw gaming revenues grow by over 84% year-over-year to over 154 million.

Chief among our game initiatives is our recently announced licensing agreement with S2 Games and subsequent partnership with Asiasoft, the leading provider of online gaming services in Southeast Asia. This partnership marks our entry into the international gaming market. Under this partnership, we have licensed the online game Strife from S2 Games for Asia, excluding Japan and South Korea. In addition, we will jointly market, distribute and operate the "global version" of Strife on an integrated platform with Asiasoft in Thailand, Vietnam, Indonesia, Singapore, Philippines, and Malaysia. This 'global' version, which can be played in multiple languages, is slated to begin beta testing this quarter and is scheduled for commercial release in early 2014.

For our IVAS revenue, one particular aspect that I would like to highlight was the strong contribution from our emerging area of live game broadcasting. This growing business increased significantly to almost 17 million RMB in the third quarter from only 434 thousand a year ago. This impressive growth represents

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the strength and success of our powerful real-time interactive platform capabilities that can be leverage for any similar real-time events as well as our large base of engaged YY users.

Now moving on to our quarterly financial highlights:

Before I get started, I'd like to clarify that all the financial numbers we are presenting today are in Renminbi amounts, unless otherwise noted.

Net revenues for our third quarter 2013 increased by 113% year-over-year to 487 million. This increase was primarily driven by an increase in IVAS revenues, and to a lesser extent an increase in our Company's online advertising revenues.

IVAS revenues increased by 126% year-over-year to 442 million. The overall increase primarily reflected an increase in the number of paying users and an increase in ARPU. Let's look at each of our IVAS business lines more specifically.

- **Revenue from online games** increased by 84% year-over-year to 155 million. This increase primarily reflected an increase in ARPU of 17% to 347RMB and a 57% increase in the number of paying users to 443,000; Also, the number of online games increased to 111 as of September 30, 2013, from 68 at the same time last year.
- **Revenue from YY music** increased by 161% year-over-year to 229 million. This increase primarily reflected a 117% increase in the number of paying users to 771,000 with an ARPU of 297RMB during the third quarter 2013.
- **Revenue from others**, increased by 145% year-over-year to 58 million. Revenue from membership program increased by 77% to 37 million. This increase primarily reflected a 75% increase in the number of members to 705,000 members as of September 30th, 2013 from 404,000 a year ago . Revenues from live broadcasting of online games increased significantly to RMB17 million in the third quarter of 2013 from RMB434 thousands in the corresponding period of 2012.

Online advertising revenues increased by 36% year-over-year to RMB45 million in the third quarter 2013. This increase reflected a 42% increase year over year in average revenue per advertiser to approximately 731,000RMB from 62 advertisers.

Cost of revenues increased to 249 million. This was primarily attributable to an increase in revenue sharing fees and content costs, which increased to 134 million this quarter from 32 million last year. This increase included revenue sharing fees and content costs to performers, channel owners, and content providers, including one-time costs related to the Happy Boy collaboration as well as higher levels of user engagement and spending. Revenue sharing fees and content costs consist of music-related; game-related, open-platform related sharing costs as well as other content production and procurement costs, with music-related sharing cost as a predominant component of it. Bandwidth costs increased by 43% year-over-year to 55 million, or 11% of revenues, down from 17% of revenues in the same period last year as we continued to manage our bandwidth cost through better allocation of bandwidth resources and infrastructure improvements.

Gross profit increased by 106% to 239 million. Gross margin was 49% in the third quarter of 2013 compared with 51% in the corresponding period of 2012. The decrease in gross margin was mainly attributable to one-time costs related to the Happy Boy show, partially offset by improved cost efficiency associated with the Company's increased scale.

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Our non-GAAP operating income increased 193% year-over-year to 176 million. Non-GAAP operating margin increased to 36%, from 26% 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 increased 267% year-over-year to RMB129 million from 35 million in the same quarter last year. GAAP net margin increased to 27% from 15% in the same quarter last year.

Non-GAAP net income attributable to YY increased by 207% to 171 million, while non-GAAP net margin expanded to 35% from 24% in the same quarter last year.

Diluted net income per ADS increased to RMB2.17 or 35 US cents from RMB0.72 in the same quarter last year. Diluted non-GAAP net income per ADS increased to RMB2.87 or 47 US Cents from RMB1.14 in the corresponding period of 2012.

For the fourth quarter of 2013, we currently expect our net revenue to be between RMB510 million and RMB520 million, representing year-over-year growth of approximately 91% to 95%.

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 and wait for your name to be announced. If you wish to cancel your request please press the # key.

Your first question comes from the line of Timothy Chan from Morgan Stanley. Please ask your question.

Timothy Chan: Hello. Good evening, everyone. Congratulations on a very strong quarter as well as the solid guidance, and thanks for taking my question. My question is actually related to your mobile monetisation; maybe could you talk about the revenue trend here? I saw some of the user metrics such as conversion rates or spending level comparing to PC, and are you seeing any impact to the PC spending as a result of more users are now migrating to mobile? Thank you very much.

Eric He: Tim, thank you very much for the questions. Yes, as we announced that the third quarter – last quarter – was the first quarter that we started the mobile monetisations, but at this point of time the mobile monetisations remained very small. So, we do not have any metrics to announce. We will continue to watch this performance. I think at the early stage the mobile monetisation was good, and in terms of conversion, in terms of PC spending, we do not see that there is any collaboration at this – I'm sorry: we do not see any cannibalization at this point of time. So, PC monetisation in music, in games and in membership are still growing very strong on YY platform.

Timothy Chan: Thank you very much.

Operator: Thank you for your question. Your next question comes from the line of Alex Yao from JP Morgan. Please ask your question.

Alex Yao: Hi. Good morning and good evening, everyone. Thank you very much for taking a question. My question is on the mobile game publishing side. You guys mentioned you have recently done some mobile game portal. Can you talk about your strategy on the mobile gaming side? Obviously we have seen very strong synergy between your web game publishing and the core YY business. And how do

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you leverage the user base on the mobile side? How do you create a synergy between these two activities? Thank you.

Eric He: Yes – thank you, Alex, for the question. I think mobile games is an area that we think is very important for us, as you all know that. In YY platform there are a lot of game – gaming users, so we actually have a very good foundation and base to leverage on our user base. Now, we are actually in the process of establishing of our mobile games team.

I think at this stage we will be aiming at, you know, two directions. One is we will actually not giving up development of mobile games by ourselves, because we believe that this is still at early stage of the mobile game development so there is some opportunities over there, and we do see there is a chance that the gigantic or blockbuster mobile game is on the way in – into the future.

Secondly is, to leverage on our YY resources traffics, we think that we will also build our distribution channel as well. I think on this particular point I would like to direct these questions to our CEO, David. David would like to answer these questions as well; maybe he will answer in Chinese first, then we will translate that into English for you.

David Xueling Li: 呃，这个关于这个这个 mobile game 的这个方面呢，我们主要是这个这个，第一个就是说，我们在平台上，其实也取得一些进展，包括手机 YY 的这个流量的这个增长。包括 duowan.com 我们的这个游戏门户，其实也有很多的这个手机方面的 apps 和手机方面的访问量，其实都可以为我们的这个游戏运营带来帮助。就像 Eric 刚才讲的一样的，我们其实这个不但要准备游戏运营的团队，我们可能还要进行这个手机这个游戏的研发，因为我们觉得这个手机游戏研发，因为我们在这个 webgame 上的运营和研发，已经这个有很多年的积累了。我们在这个游戏的这个，呃，方面，其实还是有很多的这个经验。包括我们在 webgame 运营的过程中，其实有大量的游戏是我们参与改进的，对，所以这是我们大概在 mobile game 上要做的事情。

Eric He: I think that for mobile games, we would like to actually capitalise on our platform – the power of our YY platform, as you all know that mobile YY at this moment has actually – growing very nicely in this quarter, and we believe it will continue to grow. And also, don't forget we have a very large resources called Duowan.com, which is our game portal; it actually has a very strong traffics on the PC front, and now we are actually consolidating a lot of apps on Duowan.com into actually the mobile apps. And we believe all those traffics created by the different apps from Duowan.com will actually contribute to a large portion of our future mobile game platform which is under development right now.

We mentioned it before that we will focus on two areas both; one is mobile game development, and also the platform constructions. I think we are, you know, in the process of building our mobile – mobile game teams in the quarters and years to come.

Operator: Thank you for your question. Your next question comes from the line of Gregory Zhao from Citigroup. Please ask your question.

Gregory Zhao: Hello. Good morning and good evening, and congratulations on the strong quarter. And I have three questions. First, my question is about the cooperation with Asiasoft on the South area – South Asia area on S2 Games. Shall we expect we will launch further cooperation with Asiasoft to promote our current voice communication software and the video service in that areas? And I have other two questions.

Eric He: Yes. I would like to direct this question to our CEO David, please.

Sorry, we just translated the question again for the CEO. Please, David.

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David Xueling Li: 我们这个，第一个是我们跟 Asiasoft 合作，其实是在东南亚这个推广一款新的游戏，对。然后呢，这款游戏是由 S2 Games 这个研发的，对。那另外呢，我们其实也会考虑在东南亚寻找合作伙伴，来推广 YY。但是目前呢，我们并没有跟这个 Asiasoft 达成关于 YY 这个这个业务的这个合作的这个意向，对。我们目前主要的这个这个关注点，还是关注在这个。

Anna Yu: Hi.

Eric He: Go ahead.

Anna Yu: We are launching the games initiative with Asiasoft in South – South Asia, and we are about to – we are planning to promote our YY business in South Asia – Southeast Asia, but we still have not reached any agreement with Asiasoft yet.

Gregory Zhao: And on the cooperation with Hunan TV, I think we've got another successful cooperation in the past quarter. And so, what's management – management view of how we do the engagement in the coming quarter – I mean, Q4 – and – after we end the cooperation with Hunan TV? And any expectation around the churn rates? And shall we expect the new joiners from the cooperation with Happy Boy will stay on our platform and convert to our paying users? And shall we expect the Q-on-Q sequential users – paying users increase? Thanks.

Eric He: Yes. As you all know that in third quarters, our Music performance was fantastic. Part of the reason is because that we have the collaboration with Hunan TV; however, I would like to remind you that in second quarters our Music activity, or our Music business, was very good as well. At that time we did not have Hunan TV, satellite TV's collaborations. So, the point I want to make is that we think the power of our YY platform is really the key.

So, in third quarter, in fact all the spaces, all the efforts – marketing efforts – resources, has been put onto Hunan's collaboration on Happy Boy shows. So, the point is that if – even that we don't have that contents, we have other contents which – as we did it in the second quarter of this year, we will have very similar type of the – you know, business level or growth momentums.

So, moving forward into the fourth quarter obviously we do not have any collaboration with Hunan TV or any content, but we think that the Music business will continue to grow very strongly into the quarters and the years to come.

Gregory Zhao: So, the – this quarter's ARPU increase was also contributed by YY's own platform, right?

Eric He: I don't quite understand your question, Greg. What do you mean?

Gregory Zhao: Yeah, I mean the paying users – the ARPU – on Music. On YY Music we saw a year-on-year and Q-on-Q increase, so I mean, the increase is also mainly contributed by the current and existing YY Music users rather than from the close collaboration with Hunan TV, right?

Eric He: And you know, as I told you, in third quarters, we had a very good collaboration with Hunan TV, so it will be impossible for us to distinguish between the revenue that was from Hunan collaboration, or from our own music. So there is no way for us to distinguish that. But I just pointed out, in the second quarters, we did not have any collaboration with Hunan TV, where we actually had a very strong business as well. So, moving forward, we will not be dependent on any contents from any parties. So I think that's the point which should be very clear now.

Gregory Zhao: And my last question about it – the recent progress on education – can management shared some colours around the education to monetisation, thanks.

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Eric He: Why don't I just take this question first, and I will let our CEO, David, to answer your question as well. This question for the education, as you know, that we have been going to a lot of effort and resources trying to devolve a model which is suitable for our platform, and you know that we already have roughly three million monthly active users who is – who comes to YY for the education purpose.

I think we continue to improve as we said it that our teachers on YY platform has grown very, very nicely, by roughly 28% on a sequential basis. So I think we are – our education efforts are on a very right tracks, but in terms of monetisation I think our plan at this moment is to wait until, you know, years – wait until next year. David, please?

David Xueling Li:

这个我们在教育方面的努力呢，主要的这个目标还是能够帮助这个老师和学生，老师和学校，能够尽快地这个这个这个把教育变成互联网化。那么我们在这个领域呢，现在还是在研发产品和这个，这个这个技术的阶段。主要是这个阶段呢，这个任务我们主要是看有多少老师，是能够这个很快地这个从 **off line** 转移到 **on line**，并且呢能够在 **on line** 这个存活下去，对。就是、就是说他们能够有收入，**支撑到他们跟 off line 至少是差不多的收入**，对，这是我们目前是最关心的问题。我们自身的 **monetisation** 的这个还没有这个，加、加入到我们的这个主要目标中来。

Eric He: I think for our education endeavours, the most important thing is we would like to facilitate the teachers, and also schools, helping them to do business, to make a living on YY platform, to make them at its online business. Right now, our team, actually, is developing our products and sharpen our technology. We are actually still at this stage.

So, eventually, we would like to see that we can help teacher and school to convert their offline business model to online business model. We would like to see they can make lot of money so we can like – we would like to see they can be very successful on YY platform. As to our own monetisation, I think it is not a big consideration at this juncture for our company at this moment.

Gregory Zhao: Thanks, David, thanks Eric. Very helpful and insightful.

Operator: Thank you for your question. Your next question comes from the line of Gene Munster from Piper Jaffray. Please ask your question.

Gene Munster: Good evening, now, and my congratulations. Just to follow up on that education side, Eric, it's – do you envision that being a separate brand, and kind of a separate piece and consumer brand around education, or would that just be under the general YY platform? And then I have a follow up question.

David Xueling Li:

呃，我们这个目前还没有这方面的这个这个这个规划，就是关于品牌拆分，对。我们会考虑这方面的问题，因为 YY 的这个品牌和教育的品牌，确实有一定的这个，呃，这个不一致性，对。但是呢，我们相信这个这个 YY 在目前这个努力到这样一个过程中，已经取得了这么好的这个，在教育上、上面的这个成绩，其实说明我们的这个方法和模式是正确的。

Eric He: Gene, I think for your questions regarding the brand name of YY education, at this moment, the final decision is not being made yet, as you know that YY, the brand name, has been built over years. In fact a lot of, you know, Chinese consumers recognise YY as a great brand name.

But we do understand that YY Education and YY brand may actually have very different meanings to the investors, because YY represents games, music and entertainment. So we are also considering maybe

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we will use another brand to do our YY educations. So I think the final decision is not being made yet, but this is an important decision, and I think we will make that decision as we go along to the future.

Gene Munster: And my follow-up question, just in terms of timing of education revenue – revenue that's a little bit more measurable that we can be kind of calling out. Is that late 2014, 2015? Any sort of big picture context of when we should expect that? Thank you.

Eric He: Well, as indicated by our CEO earlier, you know, the paramount task at this moment is to build and develop a product or technology that can help the schools and teachers. If we can be successful on that, then we will have lots of education users. I think at this stage, that's the most important things that we need to focus on.

As to the monetisation – as to the revenues, will come into secondary. It could be – I think it could become – it could come in the second half of 2014, or maybe later. So I would say at this moment, monetisation of education is not of the most important things for us to think about.

Gene Munster: Thank you.

Operator: Thank you for your question. Your next question comes from the line of Yu-Heng Fan from China Renaissance.

Yu-Heng Fan: Hi. Good evening. Thanks for taking my question and congratulations on result. My first question is regarding your margin. All of you have a pretty substantial margin proven for this quarter and I wonder if management can comment on – I mean, marginal for the third quarter, both in terms of gross margin and operating margin. Thank you. And then I have a follow up.

Eric He: Um, sure. You know, as I mentioned, you know, before to all the investors, you know, I am very confident on our margin pictures here. The reason that I'm very confident is because, as I mentioned, we have actually achieved a lot of operating leverage, as we indicated in our early – earnings release that our bandwidth cost as a percentage of revenue actually has dropped over years by a couple of percentage points. That's very, very apparent evidence that we are actually generating a very powerful operating leverage. So moving forward, we think this operating leverage will continue to work. So in the fourth quarters, we believe our margin should continue to improve on top of the Q3 level. So the company is optimistic on our margins improvement in the quarters to come.

Yu-Heng Fan: Thank you; that's helpful. My second question is regarding your game broadcasting business. How should we think about the potential of this business? You mentioned that this type of business can be extended to any type of live event. Is there any areas you want to get into for the live broadcasting? Thank you.

Eric He: Okay, I – we just translate questions through David, so David please.

David Xueling Li:

这个我们这个游戏直播的业务，其实这个今年以来的这个成长速度都是非常快的，对。然后呢，其实也，也反过来证明了一个这个，呃，新的领域，就是说，呃，YY 不仅仅是一个音乐领域啊，YY 的这个实时的这个语音和视频的互动的这种模式，实际上能够创造非常多的这个这个变革，对。以前呢我们大家都知道，像游戏直播这样一个领域，都是处于这个视频网站领域的，对。而且视频网络的领域呢，主要是这个广告依赖型的，对。实际上 YY 呢，我们是成功的把这个广告依赖型的业务呢，正转变成为用户参与型的业务，我觉得这是一个这个 YY 曾经在音乐上获得成功的模式，再一次的在游戏直播上其实获得了新的成功，对。我们相信啊，YY 这样的模式，可能未来还能够引起很多新的垂直行业的改变，对。

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Eric He: We— we think that, you know, the YY is a platform of real-time interaction business – right – activities. Not just we can make music business flourish, we can also, again, make game broadcasting has some – is a big business, as you all can – as you all can see that game broadcasting in this year, has been growing very, very fast, very, very strongly. In the past all this – the broadcasting business is a business of video websites. The business model video – video websites mainly depends on advertising. However, we can – what the power of the YY platform is, we can actually convert that advertising dependent business model into a user participate models. I think that's the power of YY platform. We believe this capability will enable YY to, you know, go into other verticals, which will – would disrupt a lot of different verticals, in the futures.

Yu-Heng Fan: Thank you, that's very helpful.

Operator: Thank you for your question. Your next question comes from the line of Alicia Yap from Barclays. Please ask your question.

Alicia Yap: Hi, good evening. Thanks for taking my questions. Congratulations again for a good quarter. My question is on your new mobile games platform. So, in addition to developing some of your mobile games, what is your plan to attract game developers to work with you, and are you looking more for some exclusive licence contracts? And then also wanted to get a management view is that how – how should we think about your mobile game platform, you know, differentiated with other existing third party app store, or the, you know – there are some third party game platform as well.

And also, one of the peers that just reported a couple weeks ago that they plan to, you know, launch and market aggressively on the 17173 platform on some of these mobile apps. Just wanted to – to get your stance like how – how are we going to spend – are we going to spend aggressively as well on the sales and marketing to drive some of these adoptions of the mobile apps download, and how should we see the competitive, you know, environment on this area? Thank you.

Eric He: Okay, thank you Alicia. I think we would answer the questions in two parts. I will answer the first part, David will answer the second part. I think we will – I will focus more on the mobile games side. As you know that, you know, we are entering into this mobile era, so, but we do actually believe that we are still at early stage. So, that's why we said that we would use three strategy to enter into the market concurrently: one is we will not give up mobile game developments, and as to how are we going to do that, I think we will open up for all of the alternatives and options. For example, we will build – build games by our own teams, and we will actually invest into others, you know, mobile game development teams once we – we see that they have the capability to develop, you know, good games.

On the other hand, as – as you just mentioned now, that we may actually go out there, to license some of the mobile games out there, to build our distribution platforms. As I – as we recognise that moving through futures in the mobile landscapes there might be many different type of business models, so we think that at this moment it's not very clear what models it's going to – to work the best, so we would try actually different – different options, or different routes. So that's pretty much what we believe on this mobile game development moving into the futures. I will let – I would ask David to, you know, answer the – the second part of the questions.

David Xueling Li:

对，我想这个正好趁这个机会，也大概讲一下，大家比较关心的这个 YY 的整个的这个 mobile strategy。对。我想啊，第一个就是说，这个 YY 其实这个在 mobile 上的这个手机流量呢，大概这个我觉得有有几个来源，第一个呢，是 YY 有非常大的这个 PC 上的用户群体，然后这些 PC 上的用户群呢，实际上他们在这个同时也要使用手机，对。这是我们现在的这个 mobile 的这个用户这个成长的来源之一。然后呢，第二个呢，就是说随着 YY 音乐，还有呢这个教育，还有这个游戏直播，这些业务的这个这个这个进展，对，



新的用户呢，可能大量的的是从手机上这个先使用这个我们的产品，然后可能这个之后才看到 PC 上的这些产品的。对，所以呢，新的业务的这个成长呢，实际上是我们的这个第二个这个用户的来源，对。第三个用户的来源呢，实际上是这个，因为多玩这个大概每天有 2000 多万的这个 unique visitors。所以呢，实际上是一个这个流量非常大的网站，对。所以我们在多玩上这个研发了很多的这个这个这个游戏相关的 apps，对。包括一些游戏工具啊，游戏论坛啊，这个游戏的一些数据库分析啊，这些相关的 apps，对。这些 apps 的这个流量成长的速度，其实是超过了我们自己的预期，对。就是成长的速度非常快，对。我们大概有这三块来源，其实是这个拉拉高了这个公司的这个整个的 mobile 的流量，对。然后呢，在这个 mobile 的收入方面呢，其实我们这个从这个三季度其实开始了这个在 mobile 上做一些营收的这个尝试，对。然后呢，我们看到的结果其实对我们来讲，是非常这个正面的，对。然后我们看到这个屏幕小，其实并不是，不成为一个用户这个使用手机上付费的障碍，尤其是像我们这样送礼物的，这样的一些这个 item billing 这样的一些生意模式，对。我们发现这个并不是一个障碍，其实用户这个最关心的还是这个产品的这个好坏，和这个整个产品的体验，对，并不，并不因为这个屏幕的大小，会给用户造、造成这个很大的影响，对。然后呢，这个游戏的这个方面的业务，刚才 Eric 可已经讲过了，就不再重复了。

Eric He: I think I want to, you know, sort of, bring up a couple of important points. The first point is that we all know that YY has lots of PC users, and this user base, it's very, very large. And all those YY PC users, they actually will use mobiles. We actually have not leveraged that powers to – to migrate our YY PC users onto mobile yet, and if we started to do that, that will become a very important source of user on our mobile applications, or mobile YY at this moment.

Secondly, as we emphasise a couple of times, that music, education, game broadcasting, those are the business that we have – we are still experiencing large growth. We believe all those business are bringing a lot of new users for us. You know, when the new users come in to – to experience our products in – in those verticals, is likely if we have correspondent applications on mobile, it's going to help us to drive all those users who use our mobile application more easily. So, that is going to be another source of our mobile user into the futures.

Thirdly, I think we want to emphasise the power of our game portal, Duowan.com, which we did not actually emphasise too much in the past. Currently, we have more than 20 million daily unique visitors on Duowan.com. All those users come to Duowan actually for one or other applications. For example, could be on the blogs, could be, you know, just looking for some information or game related tools or utilities. All those traffics, all those specific usage can be converted into mobile applications, and we are actually constructing that as well. So, we think that once all those application being constructed into the mobile apps, that is going to generate lots of usage on our mobile application into the futures.

So, in third quarter as – as you all know, that we started our monetisation position on mobile funds. We – we think – although that we have not disclosed any metrics – but we think the – the endeavour was very encouraging because the – the business model that we have on the mobile obviously is going to be virtual item based, and the virtual item based model actually is not being hampered by the size of the screen. So, we are confident that as we move along our mobile revenue should continue to grow and ramp-up in the quarters and years to come.

Alicia Yap: Okay, great. Thank you so much.

Operator: Thank you for your question. Your next question comes from the line of Vivian Hao from Deutsche Bank. Please ask your question.

Vivian Hao: Hi, thank you for taking my question. Congratulations on a great quarter. We realise it looks like our operating expense not only declined as a percentage of revenue, and also in absolute terms there seems to be lower quarter over quarter. Is there any specific reason behind this, or how we should read into the fourth quarter on an operating expense. And also, in terms of the revenue – sorry, the – the

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content sharing costs, I mean stripping out that 30 million that should fall into this quarter, it seems like is it still about 47% – 46% of the – of the music revenue, so what is the sustainable music sharing percentage we should – we should think of for the – for the incoming years? Yeah, those two questions first, thank you.

Eric He: Thank you for your questions, Vivian. For the first questions, is regarding that our operating expenses, you know, is actually declining in terms of percentage of the revenue, and also on the, you know, Q over Q sequential basis it's – it's actually decreased. Yes, we actually achieve this by two ways. One is because our operating leverage, as I mentioned – that as we grow bigger, you know, the percentage of this operation expenses to this revenue will get smaller. Secondly, on the sequential decline is because that when we actually have all this expenses we will incorporate a lot of accounting estimations. So, in the third quarters, you know, we have some changes in accounting estimations which have resulted in a smaller numbers of operating expenses.

For your second questions, it's our sharing costs and content costs – revenue sharing costs and content costs. I think the way that you calculate the – the sharing costs for our music revenue was – is incorrect. The reason it's incorrect is because if you look very carefully, this line item is called revenue sharing costs and content costs. Yes, you took out the content costs for the collaboration of Hunan satellite TV. But, if you compare this cost with last year – remember, last year in this line items it was only music sharing costs versus music revenue. But in this year, as I just said it, that the sharing costs includes not only the music sharing costs, also includes open platform games, and – and others. So – so that portion – if you incorporate that, that portion actually make the sharing costs a little bit higher. That's number one reason.

Number two reason is that defer revenue, as – as I mentioned, that part of the music revenue is being deferred into the future periods because of the US GAAP requirements. So, because of the two reasons, you – if you use this percentage to calculate the sharing costs, it could create incorrect percentage. I can assure you at this moment that our sharing costs for musicians at this moment on the – on a cash basis, is still unchanged, roughly around, you know, 35%-40% at this moment

Vivian Hao: Okay. Great. One last housekeeping question. Just on the P&L there's other income of 16.8 million for this quarter. Is that all from government grants or any other components there?

Eric He: Yes, that is a one time government grant in the third quarter, correct.

Vivian Hao: Okay, great. Thank you very much.

Operator: Thank you for your question. Your next question comes from the line of Evan Zhou from Credit Suisse. Please ask your question.

Evan Zhou: Hi, good evening David, Eric. Thanks for taking my question. My question is – is the quick follow up on the user acquisition strategy that David just mentioned briefly. It seems to me that most of our mobile traffic right now are mainly come from this resources that David just mentioned: pretty natural, organic traffic sources. So, wondering – just wanted to pick you guys thoughts on how do you see our user acquisition – mobile user acquisition expand, or, kind of, strategy going forward, down the – mainly – maybe in the next one or two years? Because, I think some of peers are spending pretty heavily in domestic and also international markets to increase their user base, so I'm – I'm wondering how do we mainly see the market going, and how – how do we plan for the – for – in the long term, to acquire more – the increase our user base? Thanks.

Eric He: We're translating the question to David. Just hold on a second.

David Xueling Li:

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这个其实我们从公司一开始到现在这个八年的时间内啊，一直这个都坚持一个原则，就是我们要做一些产品，然后这些产品是能够解决用户问题的。如果我们的产品，能够很好地解决用户问题，用户就会把这个产品告诉另外一个用户，然后呢，从而获得这个成长，对。我，我觉得，我们这个在未来我们能够看得到的这个时间内，我们还是会坚持这个原则，对。通过解决用户的问题，然后来获得更稳定、更长期的这个这个用户成长。

Eric He: You know, since – since eight year ago when the company – we – I – we established a company, we still use that – that original model is that we want to solve the problems of the users. If we solve the users problems word of mouth will actually market or distribute our – our products. So we believe this model very much, so we would continue to use this as our, you know, growing strategy moving into futures.

Evan Zhou: Thank you. That's very helpful.

Operator: Thank you for your question. I would now like to hand the conference back to Mr. Eric He, please continue.

Eric He: Thank you very much. And now I would like to conclude today's conference call. Thank you very much.

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

[END OF TRANSCRIPT]