**YY Inc.**
**4Q13 Earnings Conference Call Script**
**March 4, 2014**

- **MANAGEMENT DISCUSSION SECTION**

**Operator:**

Good day everyone and welcome to YY's fourth 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. At this point, I would like to turn the call to Charles Eveslage from ICR.

**Charles Eveslage - Opening Remarks and Safe Harbor Statement**

Thank you, operator. Welcome to YY's fourth 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. Good morning and good evening, everyone.

2013 was a great year for YY. We enjoyed four quarters of stellar growth in users, engagement activity and financial performance, and ended our first year as a public company with strong momentum heading into 2014.

Because of our powerful real-time communication platform, we have seen increasingly diversified and interactive online activities among our expanding base of 92.3 million aggregate monthly active users, which increased by 6 percent from the previous quarter. In particular, online music and entertainment again outperformed our expectations, with revenues growing by 217 percent year over year. Through a series of engaging and diversified group entertainment events and activities, such as our hugely popular 2013 Annual Entertainment Awards Ceremony, we were able to not only stimulate user engagement and spending, but also enhance user stickiness on our platform. The expansion of our user base as well as success of our monetization efforts drove IVAS revenue growth, which increased by 144 percent year over year to 569 million.

In addition, we made several positive developments on the mobile and education fronts in particular that position us extremely well to accelerate the development of our brand and expansion of our platform in 2014.

First, in 2013, we were largely successful in driving increased adoption and strengthening the functionality of our mobile application, helping us expand our user base and monetization opportunities significantly. Moreover, we accelerated mobile monetization by launching a payment channel for entertainment activities on our mobile app in October. Second is our online education offering, for which we built a strong foundation for 2013 and only last week significantly expanded upon with the launch of our dedicated education platform called 100 Education. Eric will discuss these two highlights shortly in greater detail.

Heading into 2014, we're excited to build upon this robust foundation we have established. We will continue to broaden our ability to engage and monetize our users by further penetrating into online entertainment, live broadcasting, education and other verticals.

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

**Eric He – Financial Results**

Thank you, David. Good morning everyone.

Now I would like to elaborate upon our mobile and education strategy. First, in 2013 we focused heavily on driving increased adoption and strengthening the functionality of our mobile application. In October we accelerated mobile monetization through launching payment options for entertainment activities on our mobile app. By enabling the payment function, our users now can interact with their favorite performers on their mobile devices through the same paid features that were previously available only on our PC client. Just within the first couple of months, we saw promising results from our online music and entertainment paying users beginning to make payments through mobile devices, even though the dollar amount is low, we feel it is growing extremely fast. By integrating the functionality of our entertainment platform across PC and mobile devices, we were able to not only significantly improve user experience on mobile, but also accelerate our mobile monetization and expand our long-term business opportunities. Benefiting from these initiatives, average daily active users of our mobile platform increased by more than 20% quarter over quarter and average monthly installations increased by 42% year over year to 4.6 million per month.

Second is our education offering, which only last week underwent a massive expansion, as we launched a dedicated education platform called *100 Education*. Through our portal 100.com, we will freely provide the millions of aspiring students in China the opportunity to complete test-prep and other courses over our online platform in a real-time interactive environment. Prior to the launch of *100 Education,* in the fourth quarter of 2013, there were more than 30,000 online education institutes and teachers providing lectures and online tutoring on YY's platform. And the number of paying users in December 2013 increased by an impressive 340 percent year over year. *100 Education's* launch will provide significant strategic value to us, as it will allow us to capitalize on our robust user base and expand full-force into the fast-growing online education market. This bold strategic move will require investments in both product development and business operations, as we work to develop our value-added educational offering for our users, which will include *100 education* branded apps on iOS and Android platforms. With this effort, we aim to offer our users a truly unique and interactive learning experience that is not possible in traditional offline education services. We believe these cost-effective online education programs have the potential to both transform traditional means of learning, and help us to further expand our user-reach and enhance user experience on our increasingly diversified platform.

Now let's take a deeper look at our financial highlights. To begin with, we're pleased that in the fourth quarter, not only were we able to significantly exceed our expectations on both the top and bottom-line growth, but we also further increased our profitability with non-GAAP net margin expanding to 35% from 22% a year ago.

These results were driven by the greater operating leverage of our platform, which has increasingly been able to attract and engage massive audiences through our cost-effective viral online marketing as well as self-promotions by performers and channel owners on our platform.

With this strong performance in mind, I would like highlight several points. First, is that the fourth quarter is a seasonally strong quarter in general and with the combination of our blockbuster year-end awards ceremony, it made that seasonality effect even stronger. Due to that success we expect our quarter over quarter growth comparisons to be a bit more modest. Secondly, is to discuss our margin expansion in greater detail and show how that was bolstered by the power of our platform. Take our year- end YY Entertainment Awards Ceremony as an example. Through this event, which vastly exceeded our expectations, users could cast paid and free votes for the “Annual Best Guild” and the “Annual Best Performers” in various different entertainment genres across our platform. This provided an innovative chance for users to interact with and endorse their favorite idols and performers. This year, the event again turned out to be a huge hit, generating a substantial amount of revenues from users’ votes. Although the event was immensely popular and generated an additional increase in sales and APRU, it only required minimal hard marketing spending on YY’s part. This was because the bulk of the promotion, in fact, occurred organically within our platform as guild owners and performers found it in their interest to self-promote through soliciting their fans participation and votes. As a result of these cost effective marketing campaigns as well as our overall cost control efforts, our sales and marketing expenses for this quarter, which included the one-time reversal of year-end bonuses, actually decreased compared with last year period, and non-GAAP operating margin expanded to 36%. These user driven marketing campaigns and many other activities enabled by our large audience of registered users, reflects the power of our platform in driving increased user engagement and activities, and expanding our monetization opportunities. 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 and percentage changes are year-over-year comparisons, unless otherwise noted.

**Net revenues** for our fourth quarter 2013 increased by 130% to 612 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 144% to 569 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 music and online entertainment** increased by 217% to 337 million. This increase primarily reflected a 165% increase in the number of paying users to 902,000 and a 20% increase in ARPU to 373RMB during the fourth quarter 2013.

- **Revenue from online games** increased by 66% to 163 million. This increase primarily reflected an increase in ARPU of 41% to 376 and an 18% increase in the number of paying users to 433,000; Also, the number of online games increased to 126 as of December 31, 2013, from 73 last year. **Revenue from others**, increased by 141% to 70 **million. Revenue from the membership program** increased by 72% to 45 million. This increase primarily reflected a 65% increase in the members to 837,000 as of December 31, 2013. Revenues from live broadcasting of online games increased significantly to 21 million from 700,000 in the prior year period.

**Online advertising revenues** increased by 29% to 43 million in the fourth quarter 2013. This increase reflected a 51% increase in the total number of advertisers to 92 with an average revenue per advertiser of approximately 472,000.

**Cost of revenues** increased to 297 million. This was primarily attributable to an increase in revenue sharing fees and content costs, which increased to 165 million this quarter from 47 million last year. This increase included revenue sharing fees and content costs to performers, channel owners, and content providers and was primarily due to higher levels of user engagement and spending. In addition, bandwidth costs increased to 60 million, representing 10% of revenues, down from 16% 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 147% to 315 million. Gross margin was 52% compared with 48% in the corresponding period of 2012.

Our non-GAAP operating income increased 261% to 220 million. Non-GAAP operating margin increased to 36%, from 23% 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 478% to RMB192 million from 33 million in the same quarter last year. GAAP net margin increased to 31% from 13% in the same quarter last year.

Non-GAAP net income attributable to YY increased by 269% to 217 million, while non-GAAP net margin expanded to 35% from 22% in the same quarter last year.

Diluted net income per ADS increased to RMB3.21 or 53 US cents from RMB0.63 in the same quarter last year. Non-GAAP diluted net income per ADS increased to RMB3.63 or 60 US Cents from RMB1.12 in the corresponding period of 2012.

**For the first quarter of 2014**, we currently expect our net revenue to be between RMB625 million and RMB635 million, representing year-over-year growth of approximately 98% to 102%.

We are very proud that in 2013 we were able to achieve solid financial success and strengthen our offering across the board. In 2014, we aim to leverage this platform and further enable services which cater to Chinese users' dynamic and ever-changing demands.

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

**Timothy Chan:** Good morning David and Eric. Congratulations on a very strong quarter. My question is related to – on education. Could you maybe elaborate more on your value preposition here especially how you differentiated from offline cost providers in terms of content? And how was the previously announced RMB1 billion investment in education services impact your margin going forward? Thank you.

**Eric He:** Okay, I will direct that questions to Xueling so I would like to translate a little bit. Usually, I am pretty sure that you understand the question but I want to make sure that specifically, he can answer your question. Xueling? Okay, now Xueling will answer your question in Chinese and I will do the translation later.

**David Xueling Li:** [Chinese, 20.31-21.00]

**Eric He:** Okay, I think the very proposition for our education services actually can be analysed in three points. The point number one is we want to make sure that the student can get quality education services. Number two, that we would like to emphasise that online is really – provide a very convenient vehicle for people to learn at home or anywhere. Number three, we want to emphasise that online education will create a lot in interactions which is never seen offline. For example, we can allow interactions among students. We can allow interaction between teacher and students. So, we will group them in several groups so that they will have better discussions and learning experience. I think that is very proposition that we will provide to our students.

**David Xueling Li:** [Chinese, 22.05-22.07]

**Eric He:** Of course, the most and important part of it is, it's free of charge.

**David Xueling Li:** [Chinese, 22.15-23.50]

**Eric He:** Okay, we want to emphasise that we want to thank our board who approved this amount of investment and in our endeavours in education business. I think we want to emphasise that with this large sum of $1 billion, we are going to invest this money very wisely and in that case, in a long term perspective. So, I think in a short term, it is not going to affect our financial resource that much and this invest actually is very broad base. It includes a very long term investments and acquisitions of our old education resources.

So, on top of that, we would like to see a lot of the teachers, offline teachers come to YY platform to teach. So, we would like to help them to become their own boss on YY platform. Because previously, all those offline teachers, they have very little or very few opportunity to become their own boss. It involves a lot of risk for them to go out on their own. But come to YY, we would like to do our best to help them establish their business by giving them a great classroom – virtual classroom by helping them, give them some sort of support when they need it.

So, I think those are very, very important for a teacher to start their own business on YY platform. If necessary, we may actually help them on a market sense. Lastly, I think we want to emphasise that YY is a company who has never actually throwing lots of money to do marketing campaign in the past. And we are not going to do so in the future for our education business either. So, we want to emphasise that the value we created for the students and also we would try our best to focus on our education product so that we would like to use our product or use the experience of good product and good user experience to attract more students. I think that is going to be our future expansion directions.

**Timothy Chan:** Thank you very much.

**David Xueling Li:** [Chinese, 26.22-26.25]

**Eric He:** In two more point.

**David Xueling Li:** [Chinese, 26.26-26.51]

**Eric He:** Okay, we said free of charge. In fact, does it mean that we will prohibit teachers to collect tuitions from students? I think teachers' own will whether he or she want to collect tuitions from students. We actually say it very clear and loudly that we are now going to charge teachers any fees in order for them to offer their courses on YY platform. So – and also some courses actually directly offered by YY is free of charge for all the students as well. So, we just want to make sure that this is clear and being understood.

**David Xueling Li:** [Chinese, 27.41-29.02]

**Eric He:** I think I also want to clarify that – people may get very scary to say that, 'Oh, we're going to offer free courses and offer the free teaching experience.' But here, I want to emphasise that usually when we learn foreign language, we would have four teachers. For example, listening comprehension, your speaking capability, your writing capability and reading capability. So, you need actually four teachers to help you. But on offline situation, you need lot of teachers in order to help a lot of students. But the power of YY is that we can leverage on our technology. We can leverage on the capability that we can concurrently hold thousands or tens of thousands or even millions of students. So, the number of the teachers that we need to engage or hire is only very few. It could be just four, eight, a handful of great teachers. And they can actually provide a great service to tens of thousands of students concurrently. So, that's why we believe the power of online educations on YY is unparalleled and so is not going to cost that much of our cost.

**Timothy Chan:** Thank you.

**Operator:** Your next question comes from the line of Vivian Hao from Deutsche Bank. Please go ahead.

**Vivian Hao:** Hi Eric, David. Thank you for taking my question and congratulations on the extremely solid set of results. Just one question here is how should we think about the live show industry gross potential and I guess automatic question is how we can size the market? And in terms of competition apart from 9158 and YY [inaudible] that direct the peers, we see that like Yuku and [inaudible] are also introducing their own live show platforms as to how to think about the competition in the segment? Thank you.

**Eric He:** Okay, I would like to direct this to Xueling and Xueling doesn't need a translation as he understands this question. Xueling, please.

**David Xueling Li:** Okay, thank you. [Chinese, 31.32-33.11]

**Eric He:** Okay. We think this market is very, very big. By the fact that you have seen so many parties or competitors or companies joining into this market just like you just allude to. So, we this market actually was very, very big. Number two is that we actually have not seen too much cut throat competition. Meaning that we had been growing our business very nicely as all you can see in 2013 but we believe other parties in the industry also is also growing their business as well.

So, in many sense, that the competition is not that keen is because that we actually focus on the different points. So, we are targeting at the different audience. The business line is somewhat different. I believe that you guys know what we mean. Number three is that we believe at this point of time is still at very embryonic stage of industry development. We think it's early because that the ultimate goal for us is to change the infrastructure on the way that the star can be created.

So, that will be our directions. We want to focus on how to formulate to create immensely popular reason known by anyone and that is a very difficult and long hard process. And this is our commitment. This is our goal. I don't think that everyone agree with us. So, we may actually aim at the very different directions as other participants in the industries. So, we think that the business industry is very bright. In this industry, of course it's such a long lasting business, yeah.

**Vivian Hao:** Thank you, thank you. May I have one follow-up question here? Speaking of the music industry, can you provide us some more colour on your plan for this year to work more closely with the experienced producers and like from the music industry or just the overall show industry.

**Eric He:** Okay, I would direct your question to Xueling. I needed some time to translate to Xueling so I mute the call a little bit. Now I would like to ask Xueling to answer your questions.

**David Xueling Li:** [Chinese, 35.55-36.12]

**Vivian Hao:** Okay. Great. Thank you.

**Operator:** Your next question comes from the line of Alex Yao from J.P. Morgan. Please ask your question.

**Speaker:** Hi David and Eric. This is [inaudible] calling on behalf of Alex. Thank you for taking my question. My question is on the game 'Strife'. I think the game has ended the first line of testing in

February. So, during the success of such mobile game, so what is initial feedback from gamers and management shares and migrating data on the game and what is our expectation on the game in terms of users not new any kind of what we [inaudible]. Thank you.

**Eric He:** Yes and thank you for the question. I think 'Strife' is the first game that we actually were licensed. You're right, it's a mobile game. MOBA is one of the hottest drama in the market place. When you said that it's being a close bid on February 2014, that specifically was actually done on – in the markets outside of China. So, in China markets which is a little bit different because we have to gone through – we have to go through the different process. As you know that we need to actually get approvals from GAPP government regulators so that I think at this point of time, the test in the Chinese market is very limited at this moment.

And from what I know outside of China, this game has been performing quite well. I think the general feedbacks from the users are this game is very unique to play and it is very concise and people just love the way that it presents itself. So, in fact, I think according to the developers as to games, they are very confident. They should actually turn this game into a very decent popular games in the futures. But I think this will have to wait until maybe a couple of month laters when they open bid up and they will announce this specific performance data. At this moment, we are still optimistic to see this game is developing into the right directions.

**Speaker:** Thank you.

**Operator:** Your next question comes from the line of Yu-Heng Fan from China Renaissance. Please ask your question.

**Yu-Heng Fan:** Hi, good morning. Thanks for taking my question and congrats again. My question is related to online webcam broadcasting. Can management provide some colour how should we think about the market size and gross potentials for this vertical and who are you at you at direct competitors and the potential competition in this [inaudible]? Thank you.

**Eric He:** I would like to ask Xueling to answer these questions. Xueling, please.

**David Xueling Li:** [Chinese, 39.37-41.47]

**Eric He:** I think as you all can see that in 2013, our real time game rock as in business has been growing very, very fast and made a tremendous, you know, improvement during the years. But we think that this market is still at very early stage. I think the reason that we haven't seen the so called e-sports or e-competition become a huge business is because of a two – a couple of points. The point number one is that in the past, people would like to emulate the east sports as football or basketball but as you all know that the football population and basketball population is much, much bigger. You know, there's a comparative games, competitive online markets on users is much smaller. User base is much smaller so it's very different. Secondly is because the business model. Because the business model for e-sports in the past it's very isolated in a sense that in because when you talk about football and basketball the weight of play is – it's very similar year by year. It's not going to change. But for east sports or online, you know, online games, every year it may actually change into different games. For example, you play 'Dora' [?] this year and next year you will play 'Dora 2'. So, in this sense, it will be have a very different, you know, contents, you know, even that it's only one year as the difference.

And in international markets, in the US, we have seen other, you know, participants in the industry such as British, as you may have known that their business model is mainly on advertisings using broadcasting – game broadcasting as a content to attract advertisers to run advertising dollars on their platform. We think that in the long run, this may not be a very optimal or that there are great ways to monetise this market.

So, YY actually provides very different ways of monetising these markets. We use virtual items, you know, type of the monetisation of premium micro-payment; this type of the methodology. So, we think our business model may actually become the mainstream in the future east sports or for these competitive games. And we think that it's not only just for PC – PC end, it actually real time game broadcasting – can be penetrated or proliferated into causal game or even on mobile games. We think this market is just beginning. It has a great future in next couple of years.

**Yu-Heng Fan:** Thank you Eric. I just has one housekeeping follow up. You mentioned several factors contributing your music performance in fourth Q. I just wonder how much of now was due to the year-end annual event?

**Eric He:** Well, I – to be honest with you, I don't know the numbers. We don't actually separate out because the event actually happens across – you know, across that quarter so it's difficult for us to be that specific. So, I would just say that the fourth quarter traditionally is a very strong quarters. And because of the events in our music business, it actually makes it even more seasonally strong so it's very difficult to give you a specific numbers.

But I already said it that, you know, if you look at our guidance number, you know, it's somewhat modest. But if you take two quarters in a row – I mean, that you use Q3 number, Q4 number and our guidance for the Q1 numbers, you will see that this Q over Q growth rate is still very consistent. It's in a low teams around 13% Q over Q. So, we would like to see that – we would like to think that our business has been growing at very healthy mode. You know, if you take, you know, this as the two quarters period instead of the one, you know, very big quarter in the fourth quarter. So, you know, I – yeah, that's my answer.

**Yu-Heng Fan:** Okay. That's helpful. Thank you. I'll follow up later. Thank you.

**Eric He:** Thank you.

**Operator:** Your next question comes from Gene Munster from Piper Jaffray. Please ask your question.

**Gene Munster:** Hey, good morning and congratulations. Eric, if you can talk although we talked a lot about education and kind of the mechanics of the business, can you just remind us as we're kind of modelling this out how we should think about modelling this out for the next maybe one to two years? I realise you're not going to give guidance but something helpful like, 'Don't expect much until X timeframe' and so forth would be very helpful. Thank you.

**Eric He:** Yeah. Gene, thank you for the question. I think as David, you know, just mentioned, our education business, the primary goal for our education business in 2014 will be to gain market share. Meaning that we are going to attract as many as teachers come to YY to establish their own business, become their own boss, and then we believe those good teachers, great teachers will attract more students. So, for this year, mostly, we will keep track of the number of teacher and number of students on YY platform. As Xueling mentioned, David mentioned that we are not going to charge teachers for any fees of using YY's, you know, education products. So, I don't expect that we would generate, you know, too much of being revenues in 2014. But on 2015, this is – I'm sorry?

**Gene Munster:** Yeah, yeah, that's exactly what I was interested in, 2015.

**Eric He:** Moving forward, 2015, you know, its area that is a little bit too early for us to tell. Surely, we hope that when we approach 2015 a little bit more and then we would tell you when we are going to start to monetise. That will be very depending on how much teachers and students or what kind of courses or how we develop our products, you know. So, at this point of time, I don't have any specific guidelines or even a ballpark number for you to understand in 2015, whether we're going to generate gigantic revenues or not that much revenue or no revenue at all. So, I – to be honest with you, I don't know about that. So, we will see the progress of this business to develop.

**Gene Munster:** That's very helpful. Thank you and congratulations.

**Eric He:** Thanks.

**Operator:** Your next question comes from the line of Gregory Zhao from Citi Group. Please ask your question.

**Gregory Zhao:** Thanks for taking my question and congratulations on those numbers. I have two quick questions. First question is about where I want the bidding the investment in education. So, from [inaudible] you mentioned potentially we can look at some acquisition of teaching resources. So, that means we will capitalise the investment or the investments or directory dropping to be reflected in the [inaudible].

And my second question is about mobile. So, currently, what percentage our active users are in mobile and what's the mobile users pay any attention compared to the PC users. Thank you.

**Eric He:** Well, I think as we just mentioned, David just mentioned that this one billion RMB, you know, investment to the education business does include many areas including, you know, a lot of education resources, or investments, strategy development and things like that. Yes. It will actually include, you know, possible investments or acquisition of educating resources. So, in that case, this will become, you know, balance sheet assets or investments for the long terms.

So, yes, definitely, I think we are not going to spend this $1 billion onto, you know, PNL related items. So, I think that's very clear. So, you know, it's very difficult to gauge what's the impact on P&L. But as Xueling – David mentioned that in a short run, we are now going to see too much impact, financial impact of nearly on P&L – you know, on a P&L side. Certainly I think you mentioned that this mobile, you know, improvement. Yes, our mobile actually is improving quite well. In the fourth quarter, we have seen that lots of mobile users, using mobile to pay – to pay, to buy the virtual items. I think although as I mentioned that the amount is not that big considering only two or three months, but the momentum and the speed of increase, it's very healthy and it's very strong. So, I think in the long term we think that mobile payment, mobile monetisation will become one of the major way for our users to pay for our items.

**Gregory Zhao:** Okay, thank you.

**Operator:** Your next question comes from Nick Ning from 86Research. Please ask your question.

**Nick Ning:** Hi. Thanks for taking my question. [Inaudible]. So, my question is do you expect direct acceleration in the gaming business for the whole year of 2014 given the trend that's highly seen in the past three quarters, and specifically an improvement if you can share with us mobile gaming. Thank you.

**Eric He:** Okay. I would like to ask Xueling to answer the game question. I think I may actually need you to transfer a little bit for Xueling's benefit. Just hold on a second. I will [inaudible] the microphone a little bit.

**David Xueling Li:** [Chinese, 54.28-57.10]

**Eric He:** Yeah. Let me just translate a little bit what David just said. I think as you all see that our gaming business actually has been growing quiet consistently. As you all know that the web game markets is tapering off all of it, you know, it's not growing as strong as before. However, you'll see that the industry as a whole can grow somewhere around 20% year-over-year basis in 2014. But if you remember that in

2013, YY's game revenues growth momentum is twice, doubles of the industry leverage. So, you know, we would like to think that this type of the momentum will continue in 2014.

Not only that, we believe that we see a lot of opportunities in MMO market. MMO markets in China as you all know is a RMB50 billion market; it's very, very big. It's growing slowly but it's not declining. But the fact that we have seen a lot of content provider which is game developers, they are quitting their foray into this market, meaning that they are not providing too much of the content into the market place. So, all of a sudden, these markets become much less comparative markets. So, with that kind of observations, we believe we have reasons to see our, you know, licensed games thrive may actually perform quiet well.

In terms of mobile game markets, we know that mobile game at this point, the most important thing is we want to have a big mobile distribution platform which is really relying on other user base. So, we are doing our best to acquire mobile users on our end. We use music, we use our [inaudible] little blogs here and here, we use, you know, videos to attract a lot of the mobile traffics. So, when we actually gather enough mobile traffic, then, we will become, you know, very important mobile game distributor again.

Because YY is a platform which has amassed or accumulates a lot of users and we are very experienced on how to distribute games. So, we believe that we still have great futures on, you know, mobile game distributions. On top of that, we see that the mobile game industries will be somewhat different from the web game business. The web game business is a business that distribution channels is the key, you know. Web game – web game developers, they have to rely on distributing channels such as YY to do – to acquire users. But on mobile games, we believe that distributing channel and the content developer or content providers equally importance. So, from this year on, we are going to dedicate some of the resources to develop some of the mobile games of our own. So, in, you know, in the second half of this year, you may see actually mobile developed by ourselves. And also, you will see more of the capability of the mobile game distributions, you know, starting in 2014.

**Nick Ning:** Thank you. That's very helpful. And [inaudible]. How do we look at the margin return for the rest of [inaudible].

**Eric He:** Yes. In terms – hello, still there? Hello?

**Nick Ning:** Oh, yeah.

**Eric He:** Okay, okay, good. So, down with the question, the margin share a little bit. The margin share for 2014 – okay, this is what we expect. We will leave that 2014 is a year of the investments. We need to actually invest in many areas. We need to invest in education. We need to invest in mobile game, mobile platform. We need to actually broaden our music offerings. So, this of course will cost us money.

So, I have been trying to tell the investment community that in 2014, please, you know, don't forecast, you know, every growing margin trend in every quarters because in 2013 as you can see, our margin has improved almost every quarter. But in 2014, I think the margin is going to be somewhat flat. So, if I were to be able to tell you some kind of guidance, I will strongly recommend that you use the average of this margin of 2013 as your benchmark for 2014.

And another point I want to ask is that because the music business has become the number 1 revenue generator for us, as you all know that we will share roughly 40% of the total revenue numbers of gross proceeds to the signers and the channel owners altogether. So, for that business, it becomes a large proportion of our revenue. It may actually bring down a little bit of our gross margin compared with previous quarter with the less importance of the music business.

However, because of the operating leverage, our operating margin, you know, will be impacted the, you know, last by the music business. Well, the music business become number one, it will actually impact the gross margin a little bit but to operating margin, it's a flat impact. So, I think the bottom-line is margin is not going to grow too much. Please use that the average of 2013 as your benchmark for you to model 2014.

**Nick Ning:** Okay. That's very helpful. Allow me for my last question is sorry if I missed it, but what is the avenue for our mobile users [inaudible] if there's a lot.

**Eric He:** Our mobile users MAU is roughly 17 million in the fourth quarter.

**Nick Ning:** Thank you very much.

**Operator:** Your next question comes from Alicia Yap from Barclays. Please ask your question.

**Alicia Yap:** Hi. Good morning David and Eric for taking my question. Congratulations on a very strong quarter. I do have a couple of quick follow up. Number one is for the mobile revenues and the new apps. So based on your initial tracking and the monitoring of the user, could you share with us what are some of the user behaviour difference between the mobile and the PC and also the demographic difference and also the demographic coverage breakdown?

**Eric He:** Well. Yeah. Thank you, Alicia, for the questions. As we mentioned in a little bit earlier that we are very pleased to see our mobile monetisation, you know, improving quite strongly in the fourth quarter. We have seen that a lot of users and using mobile devices to buy the virtual items. As we mentioned that previously we did not actually have the capability allowing our users to buy through mobile devices.

Once we open that up, we have seen that the mobile monetisation is growing quite strongly. And secondly, I think in terms of engagement, we see that mobile users engage less time on the mobile devices versus PC users. I think that is a very strikingly difference – different user behaviours. However, their frequency of using mobile devices is a lot more. So, we are still seeing that the mobile monetisation continue to grow in the first quarter of this year. We believe this number will continue to grow in the future.

I think maybe next quarter or in the second quarter, we will actually single it out and telling you that what is the breakdown between the mobile and the PC when it reached some certain meaningful levels. But all I want to say is that we are improving the user experience for mobile monetisation and we are seeing a quite a lot of usage of mobile devices and actually – and that's one of the reason that our mobiles – DAU actually is growing quite strongly as well.

**Alicia Yap:** Just to follow-up on that, do you think a lot of these mobile user, actually your new user that you were able to penetrate now versus previously, are you more limited on the PC or do you think these are some of the, as you're saying, PC user, that probably are using both devices now that they have the mobile access?

**Eric He:** Well, at this point of time, I would say both. I would say that the mobile user actually comes from our PC users. I think that's probably a bulk of the users but we also see some of the new users just using mobile to play music and you know, talking with their friends and everything. So I do see that it's a mixed bags of both. But all in all, we believe that the mobile devices or mobile strategy is going to be important not only for us to accumulate more users but also help us to generate more revenue in the future.

**Alicia Yap:** Sure. And then just lastly, one quick follow-up on the mobile gaming sequence to your trend question earlier. So I think, we have to see sequential decline in the paying user and your growth rate [inaudible], is that mainly the penalisation[?] from some users that are playing now more mobile games or is that seasonality? And how should we expect the trend for the next couple of quarters? Thank you.

**Eric He:** Well, I think that the paying users for our gaming business still has room to grow. I believe during the courses of business development, it's sometimes is very difficult to control every or to expect the heavy metrics to grow in a straight line. So sometimes you will see little bumps down the road. It's quite normal but when you see the number of paying user in our game business as total active users, still the number is very, very low.

I think there is a great potential for them grow their business in to the future. So, I think this number is just apparition, you know, in the fourth quarter. I think, in the quarters to come, the paying users should actually get back to a healthy development, you know, course. So, I see that our gaming business should continue to grow at a very healthy pace.

**Alicia Yap:** Thank you.

**Operator:** Your next question come from Jai Long Shi[?] from Credit Suisse. Please ask your question.

**Jai Long Shi:** Hi. Good morning, David and Eric. Thanks for taking my call. I have a few follow ups. And the first one is, if I understand correctly, Eric, were you just saying your gross margin were slightly just slide in 2014, but your overall margin will remain resilient? And also what's your tax rate for 2014 and 2015. Thank you. I have one follow-up.

**Eric He:** Well, it's awfully difficult to pinpoint if our gross margin will up or down or our operating will be uphill or down but I just want to point out a couple points as I mentioned that 2014 is a year of investments. So, as you know that our business creates lots of operating leverage. So, the operating leverage will be generated from hiring fewer people but our growth rate is much bigger that the spending on payrolls or sales and marketing or GNA expenses. So, for that part of business still will be true.

However, because we are going add a lot of head counts into our, you know, total employee base. So, it's going to, you know, take out some of the margins. So, that's why I want to caution you that in 2014, our margin level is not going to be similar to 2013 as you see that it's growing almost every quarter. So, I would like to ask you to use 2014's average – 2013's average as a benchmark to model 2014.

And specifically, I think the gross margin as I emphasised it, when the music business grow a little bit and then you will see – because of the 40% revenue shares with performers and channel owners, this creates some pressures for the gross margins to go up. So, I think yes, as the music business grow bigger and bigger, our gross margin is likely to be trimmed down one or two basis points – percentage points; one or two percentage points. However, the operating margin should be impacted very, you know, very little. So, the operating margins should hold up quite well.

**Jailong Shi:** And how about the tax rate?

**Eric He:** The tax rate will be quite normal. It will be somewhere around 15%.

**Jailong Shi:** Got that. And also, I think Xueling mentioned earlier one of the [inaudible] education investments will be acquiring educational resources. Could you elaborate what sort of assets in education YY might be interested to buy? And also we have seen quite a lot of companies and fresh capital swarming into this online education area in the past years. So, could management elaborate what skill or strength YY might have to compete against your rivals? Thank you.

**David Xueling Li:** [Chinese, 01.14.04-01.14.26]

**Eric He:** Well, yes. We will be looking at, you know, the business who has experience operating assistance and experience in the past. And we also are interested in some specific professional verticals who has generated very, very good result. So, those are the areas that we are interested in.

**Jai Long Shi:** And so what particular strengths YY might have to compete against other online education companies?

**David Xueling Li:** [Chinese, 01.15.18-01.15.40]

**Eric He:** Well, because YY has a very mature and strong technology platform, which will allow a lot of people to capitalise on their contents. So, we think that a lot of the companies should actually that YY is a great platform to work with.

**Jailong Shi:** Thank you. Finally, a housekeeping question for your advertising business. The ARPU saw very drastic drop in Q4. Could you give some comments on that?

**Eric He:** Well, the rising business in Q4 is because they roll out a very low price products, you know. And so, there are a lot of demands for our advertisers. And so, all of sudden, a lot of low unit priced tickets comes in which actually sort to a diluted the unit price and increased the number of the advertisers for that business. So, that is the main business. I think it's not going to be a future trend, you know. So it's – I think it's – it is just one time product redesign type of things.

**Jailong Shi:** Thank you very much.

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

[END OF TRANSCRIPT]