



- **MANAGEMENT DISCUSSION SECTION**

Operator:

Good day, everyone, and welcome to YY's Second Quarter 2014 Earnings Conference Call.

At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference call. At this point, I would now like to turn the call to Anna Yu, YY's Investor Relations Manager. Thank you.

Anna Yu - Opening Remarks and Safe Harbor Statement

Thank you, operator. Welcome to YY's second quarter 2014 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 excited to report another solid quarter marked by strong top and bottom line performance. The strong growth was fueled by the continued expansion of our music and entertainment business, along with the development of our online game broadcasting and online dating segments. We generated 841 million RMB in total revenue, representing year-over-year growth of 106 percent. Of this total, growth in online music and entertainment beat our expectations, as we saw revenues grow by 203 percent and paying users grow by 78 percent year-over-year. Our GAAP net income expansion also grew at an impressive rate of 139 percent year-over-year to 222 million.

This quarter witnessed increased user traffic and spending during major events like the World Cup and the romantic day of May 20th, 五二零. Going forward, we will continue to utilize event-driven user experiences across our expanding platform to develop increasingly interactive online activities among our expanding user base of over 100 million average monthly active users.

The growing inter-activity and scale of our user community, coupled with the enhanced real-time technical capabilities of our platform, has given rise to many new business opportunities. One such opportunity is our online dating segment, which we launched about half a year ago and has begun to show tremendous potential. Revenues in this new segment increased by nearly 300 percent quarter over quarter, demonstrating the strong appeal and revenue-generating potential of this service.

Another area I would like to highlight is our online game broadcasting business. We believe that this market has tremendous potential. Being the clear and early leader in this space, we believe that as online gaming continues to rapidly evolve into a spectator sport, mobile games will follow as well, further speeding up the growth of this industry. We firmly believe that our numerous complimentary content and user resources, like our Duowan game portal and its 38 million daily unique visitors, will continue to cement our leadership position in this industry.



Moving on to our education offering, since 100 Education's launch in February, we have made steady progress developing the offering, improving user interface across devices, and attracting teachers and students. The product has developed a strong brand reputation in the market for its high quality test-prep classes as well as English class offerings. In addition, we see mobile as a key element to the successful development of this offering. Already in the second quarter, we launched a mobile app that empowers students to study anywhere through our platform. Going forward, we will continue to expand our mobile offering to address growing user preference for anywhere and any device access to our services.

By further expanding our service offerings, we will continue to meet the changing demands of our dynamic user community. We are confident in the strong market leading position we have established, as we strive to attract new users, and provide new and exciting service offerings. Our online entertainment, live broadcasting, online dating, education and other verticals, position us well for strong and sustainable growth.

With that, I will now hand over the call to our CFO, Eric.

Eric He – Financial Results

Thank you, David. Good morning everyone.

To start, I would like to elaborate on two key themes that David briefly highlighted above before I delve into the financial results – first, the impressive development of both online game broadcasting and online dating; and, second, our improving operating leverage.

Our online game broadcasting revenues grew an impressive 243 percent to 31 million year over year. However, we do not take our leadership position in this market for granted as we are tirelessly working on improving the video quality and also enhancing the functionality and user-friendliness of the platform. While the online game broadcasting market is still young, we are witnessing the tremendous growth in the pool of both current and legacy players who have interest in watching talented players compete. This dynamic and large pool of viewers has created a new and profitable genre of spectator sports that now includes online gaming competitions. This trend is not only evident from our own experience but we have also seen its potential internationally as mainstream cable sports channels even have begun to broadcast online game competitions live on cable TV, further strengthening our confidence for growth in this area.

The other area which I would like to highlight is our online dating business. This business has grown at an incredible rate and has tremendous potential, as the growing population of younger internet users seeks new forms of entertainment. The main appeal of our online dating platform centers around the playfulness and casualness of the program. Unlike traditional dating, where users may send an email and hope for a response one day, our online dating platform is centered around an online dating show that encourages real time interaction amongst users and participants. This new form of entertainment has captivated the interest of a large portion of our users as demonstrated by the strong financial results and holds great potential going forward.

The recent success of these two business lines highlight the creative ways our users utilize our platform. As our user community reaches a critical mass, characterized by scale, level of inter-activity and variety of services, we expect the evolution of our platform to become increasingly user-driven. We will continue to respond to the evolving demands of our users and facilitate the organic development of our platform by augmenting our offering with innovative new services.

One last area I would like to briefly highlight is our recovering operating leverage. Initially, non-GAAP operating margins were under pressure due to our expansion into new business lines, and the associated

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



R&D costs. However, as we begin monetizing those new lines of business, we alleviate some of our margin pressure and our non-GAAP operating margins should remain relatively stable going forward.

Now moving on to our quarterly financial details:

Before I get started presenting our financial numbers, I'd also 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.

First of all, I'd like to highlight that in the second quarter, we were once again able to achieve results that exceeded our expectations on the top line. Moreover, we also saw net income attributable to YY increase by 139% due to the expanding scale and leverage of YY's business operations.

Net revenues for the second quarter 2014 increased by 106% to 841 million. This increase was primarily driven by an increase in IVAS revenues.

IVAS revenues increased by 118% to 801 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 music and entertainment increased by 203% to 516 million. This increase primarily reflected a 78% increase in the number of paying users to just over 1.1 million and a 70% increase in ARPU to 458 during the second quarter 2014.
- Revenue from online games increased by 10% to 167 million. This increase primarily reflected an increase in ARPU of 10% to 381; Also, the number of online games increased to 150 as of June 30, 2014, from 96 last year.
- Revenue from others, increased by 169% to 117 million. Revenue from the membership program increased by 54% to 49 million. This increase primarily reflected a 43% increase in the members to 921,000 as of June 30, 2014. Revenues from live broadcasting of online games increased significantly to 31 million from 9 million in the prior year period. Revenues from online dating increased significantly to 29 million from 7 million in the prior quarter.

Online advertising revenues were 40 million in the second quarter 2014, compared to 42 million in the corresponding period of 2013.

Cost of revenues increased to 425 million. This was primarily attributable to an increase in revenue sharing fees and content costs, which increased to 256 million this quarter from 89 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 77 million, representing 9% of revenues, down from 11% 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 91% to 416 million. Gross margin was 50% compared with 53% in the corresponding period of 2013. The decrease in gross margin was mainly attributable to a higher portion of revenues coming from the online music and entertainment business, which has a higher cost of revenues structure due to its revenue-sharing fees and content costs.

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



Our non-GAAP operating income increased 140% to 275 million. Non-GAAP operating margin increased to 33%, from 28%. The increase in operating margin was primarily due to increased operating leverage associated with our expansion.

GAAP net income attributable to YY increased 139% to 222 million from 93 million. GAAP net margin increased to 26% from 23% in the same quarter last year.

Non-GAAP net income attributable to YY increased by 107% to 258 million, while non-GAAP net margin remained stable at 31%.

Diluted net income per ADS increased to RMB3.71 or 60 US cents from RMB1.58 in the same quarter last year. Non-GAAP diluted net income per ADS increased to RMB4.32 or 70 US Cents from RMB2.13 in the corresponding period of 2013.

For the third quarter of 2014, we currently expect our net revenue to be between RMB930 million and RMB940 million, representing year-over-year growth of approximately 91% to 93%.

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

- **QUESTION AND ANSWER SECTION**

Operator:

Your first question comes from the line of Philip Wan from Morgan Stanley. Please ask your question.

Philip Wan: Hi. Good morning, David and Eric. Thanks for taking my question and congrats on the very strong quarter. My first question is about your new business, online dating and live game broadcasting, as they are emerging as new growth driver for the company. Would you share with us any internal sales targets for these two business and then also how the margins for them are compared to your music business? Thank you.

David Xueling Li: [Foreign Language] (17:13 - 18:39)

Eric He: Now, I would like to actually translate what David just mentioned. We think that game broadcasting business has a great potential, has a great future. The reason is that we have seen that the game become more of spectator sports as we can see that the old PC online games now evolved into mobile game. We have seen a couple of mobile game actually has a lot of - great demands on our platform as well. So we think that this type of the competition, competitive activities, overall, can become a very interesting genre on our YY platform.

So not only in gaming itself, we think that a lot of other activities which has elements of the competition will become important pillars of our competitive platforms and the real-time broadcasting business. So we think that the real-time broadcasting competitive activities in the future can be a big business. So we are preparing ourselves to move into that direction. So we think this business can become a long-lasting big business into the future.

David Xueling Li: [Foreign Language] (20:02 - 21:03)

Eric He: The dating show actually on our platform is a brand-new one. We think in this era, we have seen a lot of the younger generation of Internet users. Their entertainment needs is not being completely satisfied. We think our dating shows actually fill part of the demands from these new generations. We

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



also see that the dating show actually has some sort of differences from our very famous music and entertainment activities, entertainment activities that we have demonstrated our capabilities - our strong capability in the past actually is provided - the content was provided by the performer or the singers alone. A lot of the users and fans actually are watching, are viewers.

But on our dating shows, it's not like that. On our dating shows, the viewers can become content providers, can become the focus of the spotlight. So we believe these interactions, the casualness of the whole environment of the shows could actually create a very different type of entertainment down the road, which is different from our current entertainment/music channels.

Operator: Thank you. The next question comes from the line of Alex Yao from JPMorgan. Please ask your question.

Alex Yao: Hi. Good morning, everyone. And thank you for taking my question. Congrats on a very solid quarter. I have two questions. The number one is on Web game outlook. The growth rate of Web game decelerated from the previous quarter pretty significantly in this quarter. Can you share with us why the weakness for this quarter and what will be the Web game outlook for the rest of the year? And then, secondly, is, in the prepared remark, you guys mentioned that MAU has exceeded 100 million in this quarter. Can you provide us with an accurate number and a breakdown across different activities such as the gaming, music, dating, education, et cetera? Thank you very much.

Eric He: Okay. Alex, yes, you are correct. In the second quarter, we have seen some softness in our online game revenue which is consisted of the Web game collaboration or Web game cooperation revenues. I think the softness was due to the pipeline issues because we have seen a couple of Web games has slowed down in the pipelines. So the new pipelines actually has not come up into the stream. However, in third quarter, which is the current quarter, we already see that the pipeline actually start to develop into its shape.

So in third quarter, we have seen that Web game actually has come back in terms of revenue very strongly. So, in terms of the rest of the year, we are very confident that our online game revenue still will be growing in the target rates as I think right now the consensus of our online game revenue is in a range of 30% to 40%. I think that target is fine, and we still are very confident to reach that target. So, yes, the second quarter was a little bit of slowdown, but in third quarter, it actually has come back quite strongly. So we are confident that, for the rest of the year, should be okay.

In terms of MAU numbers, yes, in the second quarter, we have exceeded 100 million which actually is pretty strong. But in terms of the specific MAU number, we did not actually disclose the details, as you know that on our platform sometimes it's difficult to distinguish the gamers and the people who participate in music.

But I think there is a rough classification. I think, as of now, still, our gaming users still accounts for roughly 45% to 50% of the total MAU numbers. Our music users accounts for roughly 40% to 45% of these total numbers. And the rest of the other users accounts for roughly 5% to 10% of this 100 million MAU number. So that is very broad and general classification. Usually, we will use that as a base to calculate the conversion rates. So I think - I hope that answers your questions.

Alex Yao: Yes, it does. Very helpful. Thank you. And I'll get back to the queue. Thank you.

Operator: Thank you. 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. Hi, Eric and David. I have two questions. First of all, we notice that your music segment ARPU for the second quarter has grown 20% year-over-year. Is

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



there any particular reason for this spike in the quarter? And also, could you give us - provide us some color on the current VIP player or high-roller players' contribution to the music segment revenue? And my second question is as for the earlier business model explanation on the game broadcasting side, is it correct to understand we're moving to more of a many-to-many live show grassroots players model versus previously it's more like an elite versus [ph] fan (27:58) followers model? Thank you.

Eric He: Well, for the music business, yes, you are right. The music business ARPU has risen a little bit to RMB 458 for the second quarter. Remember, that is quarterly numbers. So, yeah, on a year-over-year, yes, it's about a 20%, 30% increase. But I would like to highlight that we view this increase in ARPU as very normal because if you would get our business, our total revenue from music actually has doubled - has actually tripled from last year's.

So this significant growth actually come from two parts. One is our expansion of our paying users. The other portion is increase in ARPU. I think with these two very strong driving force help us to achieve such a great performance of our music business. So I see this ARPU increase is a very normal course of expansion in our business as we are designing new items or we are actually - has created a lot of event-driven activities which stimulate the spendings from our users. I think your second part of the question is our VIP members and all those so-called big rollers, how much do they spend? I think the percentage is still the same as - the last quarter, you asked the same questions. I give you the answer already. So I think that percentage still holds true.

But I would like to point out that we have a very interesting - the membership numbers, we have what we call the noble membership. If we aggregate all the noble membership, we have more than 100,000 members as a nobility, one of the members of nobility. I think that numbers of nobility is still growing, which represents a very healthy development of our music and entertainment business.

For the game broadcasting business, as pointed out by David earlier, that we view game broadcasting business is a very interesting business, has great potential. We actually have seen the game broadcasting business has moving from the PC game onto mobile game, as all of you know that the mobile game is growing like crazy. And so - and not only that, we also see that a lot of other activities which have the competitive elements of it could actually be broadcast on a real-time format on our platform. So we think that the game broadcasting business has great potential moving into the future.

Vivian Hao: Thank you. Very helpful.

Operator: Your next question comes from the line of Jialong Shi from Credit Suisse. Please ask your question.

Jialong Shi: Hi, good morning David and Eric. Congratulations on a very strong quarter. I have two questions. My first question is still about the game broadcasting service. I noticed from media that YY recently signed an agreement with Baidu Tieba regarding the cooperation on game live broadcasting service. I just wonder when you guys will officially launch this initiative and what's the potential impact on your game broadcasting service? Any comments will be appreciated. I have a follow-up question.

Eric He: I will ask David to answer your question. I think David already got the question and he will answer in Chinese and I will translate later.

David Xueling Li: [Foreign Language] (32:16 - 33:14)

Eric He: Yes. I think we have initially agreed with Baidu Tieba on some of the collaborations. I think the main purpose for our game broadcasting business is that we all know that Baidu Tieba has tremendous traffic. Specifically in a gaming area, it has more than 400 million page views on a daily basis, which is

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



tremendous traffic. I think game broadcasting business of YY will definitely enrich Baidu Tieba's contents and help Baidu keep a longer time of their users on Tieba.

On the other hand, I think we can capitalize or leverage Baidu Tieba's traffic help us to grow our user base on the game broadcasting business. We would love to see these cooperations come to reality. And for the detail of collaborations, I think we would announce it in the near future.

Jialong Shi: Thank you very much. I think David mentioned in the opening remark YY leveraged some special events in Q2 like World Cup and May 20 in Q2 to drive up the user engagement. I just wonder which of your services most benefit from these kind of events in Q2 and should we expect to see a pullback in user engagement or consumption for those services in Q3 since World Cup is over? Thank you.

Eric He: Yes. I think David mentioned it in the context of that our entertainment business actually has been benefited from a World Cup and May 20, which is Romantic Day in the Internet business in China, in Chinese, it's called wu er ling. So I think, mainly, the event-driven activities or marketing scheme has been implemented by our music or entertainment business in great details. We have had very good success in the past. We will continue to do that. So I think that is mainly geared toward our entertainment business. Yeah.

Jialong Shi: Thank you. Very helpful.

Operator: The next question comes from the line of Gene Munster from Piper Jaffray. Please ask your question.

Gene E. Munster: Good morning all and my congratulations. Eric, you talked a little about the guidance. Can you recap where the strength in the guidance is coming from? I think you said music. And separately, as you talked about different initiatives, in the past, we've talked a lot about education, you mentioned a couple of other ones here. How should we think about those impacting the model in 2015? And if it's possible for you to make any comments beyond that, are these initiatives more about 2016 and kind of beyond or are they something that could be more incremental next year?

Eric He: Yes. Gene, I think, yes, when we look into the future, we do see there is a lot of potentials that could happen on our YY platform. I think David and I, we actually emphasized two new activities which has been very successful as we mentioned that game broadcasting business. This is growing at [ph] handover fixed (37:04) rate in second quarter.

The other one is our dating show. It was just started six months ago. Now, it becomes a great revenue contributors already. Those two businesses actually, we see that will continue to grow for the rest of the year into next year. I think, if you look at YY, YY actually has such a diverse activities. People often ask what exactly is YY. What we have seen YY is we have seen that YY more and more so become a marketplace for talents, for services. We can see that in our media business, those talented performers who usually or in the past would have to go to a television station or a radio station or other professional organizations in order to make a living, but now, if you are talented on YY platform, we can put you in front of millions of users. And those users can actually spend money to purchase your service via the YY platform. And I think that is a very powerful marketplace, so to speak. So we think that YY has evolved itself into a service or talent marketplace.

At the same time, as you can see that our goal for the education business is to do the same. Teachers used to be teaching in schools or the teaching organizations or cram school. We can in the future the talented teachers should be able to make a living on YY platform because YY is capable of putting those teacher in front of million students. So I think that's the main themes of the power of the YY platform. So, into 2015, as we can see, more and more activities can start or become monetizable, then we will

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



see the stronger revenue to come in 2015 and 2016. And also, we will keep very juicy margin into the future, because right now, we are providing a lot of free service. Into the future, if we start to monetize all those activities, we think that we can actually enhance our margin down the road in 2015 and 2016.

Gene E. Munster: Great. Thank you, Eric. **Operator:** The next question comes from the line of Alicia Yap from Barclays. Please ask your question.

Alicia Yap: Hi. Good morning, David and Eric. Thanks for taking my questions. Congrats on the strong quarter. I have a couple of quick questions. Number one is on the online dating business. To follow up on that is that, since we already have close to 4% of the total revenues coming from this business line now, and how big will this business do you anticipate to grow into? And also, can you [ph] share with us (40:38) is there any difference on the revenue sharing front for this online dating versus your music business?

Eric He: I think, for this online dating business, it's still at a very early stage. As we pointed out, it was started only six months ago. So it is very difficult to predict what is the future of online dating business. But we have seen it has a huge potential. But, of course, we are augmenting a lot of details in terms of products. We are also trying to diversify how to even enlarge the user base for this line of business. I think, at this moment of time, we are not ready to give any specific targets in terms of how big this business is going to be, but we do think that this business should have a long leg into the future.

Alicia Yap: I see. And then for the margins trend, so can you remind us again on some of the costs and the spending and what would be contributing to your comment on the more stable margins rather than on more margins leverage?

Eric He: Right. As we are expanding into different line of business, it actually requires a lot of promotions. So, as you can see, in the second quarter, our sales and marketing has risen to more than RMB 13 million in RMB terms, which is more than double from the first quarter's. I think that's our efforts to expand our user base into different sources. I think that trend should continue.

But at the same time, because our business is growing very fast, so the operating leverage will help us to alleviate some of the margin pressures from expanding into a different line of business. So that's why I said, because of the combination of those two, we see that the current margin could be somewhat maintained at a very narrow range into the future. It could be higher a little bit, it could be lower a little bit. It will depend on the specific activities that we are involved with into the future. But as of now, we see that our margin should be pretty stable for the rest of the year.

Alicia Yap: I see. Can I just quickly follow up? Will the gross margins - is also a function of the music business being higher contribution and then will online dating business, if it's higher contribution, will that impact gross margins as well? Thank you.

Eric He: Well, in order to affect our gross margin, the line of business needs to be very big. I think dating business right now is still very tiny, very small. I think it's unlikely to affect our gross margin. But you are right, our music and entertainment business will affect our gross margin. As you know that the gross margin actually has been on a down trend over the course of the last 18 months simply because our music business has growing faster than the rest of the activities, because music business has higher content of - this content cost, higher cost structures. So that will automatically or inevitably lower our gross margin. But because of the operating leverage, as you look at our operating margin - and operating margin, actually, it's pretty stable and actually on the rise. So I think, overall, I would see that the gross margin will continue to dip a little bit as long as our music still is the revenue driver for the rest of the year, but our operating margin should be pretty stable.

Alicia Yap: Okay. Great. Thank you.

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



Operator: Your next question comes from the line of Natalie Wu from CICC. Please ask your question.

Natalie Wu: Hi. Good morning, David, Eric and Anna. Thanks for taking my question and congratulations on a strong quarter. I have two questions. The first one is, can you share us with the MAU and ARPU of YY Music on the mobile end? And just want to check again with your answer to the prior question, do you mean that we can assume your YY Music ARPU growth can be sustainable in the following quarters? And about your game broadcasting and online dating business, will it bring a relatively higher ARPU as it will facilitate better user engagement, I assume, especially online dating business?

Eric He: Okay. Well, as I said, in terms of MAU numbers for our music business, I think that was your question, right? MAU numbers, because, as I said on our platform, it's somewhat difficult to distinguish very clearly who are the music users, who are the game users. But roughly, we can say that out of that 100 million monthly active user in the second quarter, we will classify 40% to 45% of those MAUs are as our music and entertainment MAU. So, if you apply that, that will give you something like 40 million to 45 million MAU. But ARPU number, as we already see in the release, is RMB 458. But I do not have a specific ARPU and MAU number for mobile yet, but I think I can provide it next time, in the next earnings release. But I do not have a specific ARPU number for our mobile MAU - or mobile paying users for the music users yet.

I think, in terms of the dating and game broadcasting business, definitely, it's a great contribution on our top lines. We continue to see that those are very good elements to help us to alleviate our margin pressures. As I said that we're expanding into a different line of business, we have tried a lot of ways of promotions, but at the end of the day, we need to actually monetize some line of business in order to hold up our margin levels. I think all those business has helped us to maintain a very stable margin picture as of now.

Natalie Wu: Thank you very much. And my second question is, I have noticed that the other revenue actually increased from the normal level of RMB 3 million to RMB 4 million per quarter to RMB 8 million this quarter. Can we attribute both - can we attribute this incremental revenue to a series of mobile apps you have launched in the second quarter, like [indiscernible] (48:28)?

Eric He: No. I assure you, we have many other activities which are small we did not announce publicly. But those small activity is in incubation stage. If you add it together, it will actually help us to increase revenue on the others categories. I think that was others, including some of the things that you mentioned some mobile apps. But as long as I can remember, the mobile apps right now is not generating too much of the revenue so far.

Natalie Wu: Thank you. **Operator:** Your next question comes from the line of Yu-Heng Fan from Chinese Renaissance. Please ask your question.

Yu-Heng Fan: Hi. Good morning, David and Eric. Thanks for taking my question. My first question is related to online dating business. What is the management's thoughts on any potential expansion into a more stand-alone social networking service on the basis of your online dating and video platform? Then I have a follow-up question.

Eric He: I will transfer your questions to David. David could answer your questions. Hold on a second. Yes, David, please.

David Xueling Li: [Foreign Language] (50:27 - 51:50)

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



Eric He: I think I just want to elaborate a little bit on this online dating show that we have. Normally, we have eight people in online dating scene who are on stage. Actually, there is one host, eight people, including four guys and four girls. So they will be introduced to each others and they will be able to ask questions to the other side. And then you will see lots of - hundreds of the audience just watching these shows is ongoing. So these online dating shows, it's very different from our entertainment shows because all those eight people, including the host, nine people, they are actually providing the content. So there is no specific very renowned or famous performers taking the stage become a celebrity. All of the people actually participate into the shows. So this is a very different form of entertainments in the past.

We think this type of form is being welcomed by our users at these moments. But overall, into the long term, we think this could become an SNS product which has a great potential, but we need to actually break through into the mobile devices. So we need to actually think how to incorporate these online dating shows with mobile users and mobile usage, and we are trying in this direction definitely. But so far, I think we are still in the stage of experimenting. So if we can be successful in these directions, this could be a very big business into the future.

Yu-Heng Fan: Thank you. That's helpful. My second question is on your future initiatives. So beyond online dating and broadcasting, you mentioned earlier that YY has become a marketplace for the talent. Also, beyond online dating and online game broadcasting, [ph] further test (54:04) of content, you think that could potentially appeal to your core music or in the entertainment users? Thank you.

Eric He: I think, in general, because this is a service and talent marketplace, so we believe that our users likes to directly or have the real-time interactions with our content. So as long as this exists, YY will provide great value to our users. So I think, as David mentioned earlier, that we think there are a lot of actually competitive activities can be broadcasted on the YY platform. So I think moving into the future, we will try to work in that direction. Secondly, I think we will also work on the mobile directions because we see that future as a mobile era. Mobile is close to everyone, so we - if we will be able to allow users to have access to a real-time platform such as YY anytime, anywhere, this can make YY actually expand into even larger user base. I think those are the areas that we are working on and we are trying to make progress.

Yu-Heng Fan: Thanks. That's helpful. Congrats to the quarter.

Operator: Thank you. Your next question comes from the line of Eddie Leung from Merrill Lynch. Please ask your question.

Eddie Leung: Hi. Good morning. Just two quick questions. The first one is on competitive landscape. Would you share with us your thoughts on the competitive landscape after one of your competitors got [ph] listed (56:45)? Should we expect higher competitions on patents, patent costs as well as on sales and marketing going forward? And then, secondly, a follow-up question on mobile. Eric, you mentioned that you can't give us the paying users for mobile at the moment, but could you share with us the user behavior difference you see on mobile versus on PC, for example, the time span, the conversion rate, so on and so forth? Thanks.

Eric He: Okay, great. I think I will ask David to answer your first question and I will answer the second question later. Let me translate the question to David first. Just hold on a second.

David Xueling Li: [Foreign Language] (57:51 - 59:50)

Eric He: Yes. I think if you look at the YY's history, when we actually started YY service in 2008, we have seen many competitions. In fact, YY originally was positioned as a real-time voice communicators. In early days, almost every online game company launched a YY-like products. So we got a lot of

YY Inc.
2Q14 Earnings Conference Call Script
August 6, 2014



competition during those times. But all of those competitions has faded away over last couple of years. Now, we are still dominant market leaders in the real-time voice communication markets for online gamers. So that actually demonstrates that we have a very strong capability to fend off the competition.

But if it comes to the music scene, yes, you are correct, there are some newcomers in the marketplace or sometimes they even have a longer history than ours. I would say, yes, we do have some competitors in these areas, but because of the fact that we have experienced tremendous growth over the last couple of years, we have a lot of things internally needs to be taken care of. So we only focus on solving all the issues internally. So we rarely actually look at outside. And to be very frank, we don't feel the competitive force is that strong because we have been growing very, very strongly.

However, recently, we have seen the power of ecosystem or the economy of scale. Because we've become so big, we actually now look around, we can actually open several options or channels, allow the performers to join us. Once we start doing that, we have seen tremendous attachments to those performers, to those channel owners. They will love to join us because, previously, we didn't even open up those opportunities for those peoples. Once we start to open up those opportunities for those peoples, we have seen tremendous attachments for those guys. So we actually have seen we are gaining the market share. We are competing very effectively in the marketplace right now.

David Xueling Li: [Foreign Language] (1:02:23 - 1:03:35)

Eric He: Yes. David would like to actually give you guys an example how we actually successfully attract those content providers or singers to join us. For example, there's these performers who can earn RMB 5,000 a month in our competitive platforms, but once - with that kind of capabilities, in fact, this person can actually have a potential to earn like more than RMB 20,000 per month on YY platform. But the problem was when they joined us, they would have to experience some sort of a hiccup. So their earnings would dip down when they joined us because it's in transitions.

But right now, we are actually opened up some opportunities or initially some programs to help them to smoothly transit their join in YY to help them to shorten the very painful dips in their monthly revenues so that they can very easily transition into a YY platform without loss too much of their monthly earnings.

I think you - Eddie, you had a second question is regarding our mobile users. Yes. I think that mobile users, as I mentioned, mobile user is a very important direction that we are going to attract. I think, in last quarter, we already announced that roughly one quarter, 25% of our monthly active users for music activities actually is paid through a mobile. I think - I don't have the percentage for this quarter, but I can certainly provide it later on for all you guys. But the specific characteristics or behavior of mobile user is, as of now, mobile users spend less time on our platform. According to last quarter's numbers, their ARPU is lower.

But as I mentioned before, I think - I don't have the numbers in front of me. I think the percentage of the mobile paying users are increasing. I believe the ARPU for mobile users are increasing as well. So I think those are the specific user behavior. They spend less time and now the ARPU is less, but I think we are working on to enhance the conversion ratio for mobile users. We are trying to increase ARPU for mobile users as well. So I think that I will provide more information about this in the future for you guys.

Eric He: Got that. Thank you very much, David and Eric. Thanks.

Operator: Thank you. This does conclude our Q&A session for today. I would now like to hand the conference back to management for closing remarks. Thank you.

Eric He: Thank you, everyone. Now we conclude our conference call right now. Thank you.

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David Xueling Li: Thank you.