



- **MANAGEMENT DISCUSSION SECTION**

**Operator:**

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Ladies and gentlemen, thank you for standing by and welcome to YY Inc's. third quarter 2014 earnings conference call. At this time, all participants are in a listening only mode. There will be a presentation, followed by a question and answer session. (**Operator**instructions).

I must advise you that this conference is being recorded. I would now like to hand the conference over to your speaker today, Lili Huang, YY's Investor Relations Director. Thank you and please go ahead.

**Lili Huang, IR Director - Opening Remarks and Safe Harbor Statement**

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Thank you, Operator. Welcome to YY's third quarter 2014 earnings conference call. With us today are Mr David Xueling Li, CEO of YY, and Mr Eric He, CFO. Following management's remarks, we will conduct a 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 take forward-looking statements.

Now, I would like to call the conference call over to our CEO, Mr David Li.

**David Li, CEO – Overview and Strategic Highlights**

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Thank you. Good morning and good evening, everyone.

The momentum we saw in the first half of the year remained strong as we moved into the second half of the year. This was driven by both the exciting new initiatives that we have helped to diversify our product offerings over the past couple of quarters, as well as the containing strength of our core business lines.

During the quarter, we reached a tremendous milestone, as our total revenue exceeded RMB1 billion for the first time ever, more than double what we achieved during the same period last year. Our online music and entertainment business contributed significantly to this milestone, as revenue grew by 133% year-on-year.

Furthermore, our GAAP net income also grew at an impressive rate of 122% year-on-year to RMB286 million. We remain focused on growing our user base and improving user engagement. In late September we launched a new version of our mobile YY, with added feature such as performance highlights video clips that can be shared to other social platforms, further increasing the social bonding of our platform.

We were pleased, as you'll see, that in October, mobile paying user in our music business increased by 36% over the previous months. With this early success, we feel confident that our programs on the mobile front will continue to help increase our user base and position ourselves strongly for the future growth.

In addition, with the diversity of users and the unique nature of our services marketplace platform, we believe that there are many unmet needs among our user base, latent or open, and some of which would present huge monetization opportunities.

Online dating is a perfect example. Launched less than a year ago, revenue for this segment surged in the last few quarters, increasing from RMB7 million in Q1 this year to RMB64 million in Q3. It is now the third largest segment of the business, only behind online entertainment and online games. We believe that such success can potentially be duplicated once the right opportunities are identified.

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As evidenced by our new initiatives, we will continue to explore new verticals that meet the demands of our fast growing user base, as well as provide numerous opportunities for monetization. By developing our platform into a comprehensive payment and services marketplace for our community, we are confident we can build upon our strong market leading position and provide exceptional returns for our shareholders.

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

**Eric He, CFO – Financial Results**

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Thank you, David. Good morning everyone. Before I get into discussing our financial performance, I would like to first talk about our online game broadcasting business and the general industry, which has attracted significant attention since Amazon's recent acquisition of Twitch. After that, we will move on to discussing our financial results and outlook.

During the third quarter, our online game broadcasting revenue grew substantially to RMB46 million, up from only RMB17 million a year ago, demonstrating the strong interest from Chinese viewers of such video content. Furthermore, recent acquisitions in the game broadcasting space in the US has solidified the legitimacy and potential of this emerging content genre, as well as the future growth prospects of this sector.

On the flipside, though, all this attention has attracted many other interested parties, and with it increased competition. Recently, we have noticed more capital flowing into this sector in China, which has been used for higher sponsorship dollars for professional gaming teams as well as providing enhanced video resolutions on their streaming broadcasts. Considering YY's market leading position in this space, we acknowledge that this increased competition will both temporarily slow our revenue growth projections for online game broadcasting, as well as increasing expenses for both bandwidth expenditure and sponsorship opportunity over the short term.

Over the long term though, we believe that we will maintain our sizeable lead in this marketplace, given our large user footprint and see rationalized return as the sector grows.

Now, moving on to our quarterly financial details:

Before I get started presenting our financial numbers, I would 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 would like to highlight that in third quarter, we were once again able to achieve a result that exceeded our expectations on the top line. Moreover, we also saw net income attributable to YY increase by 122%, due to expanding scale and leverage of YY business operations.

**Net revenues** for the third quarter in 2014 increased by 105% to RMB1 billion. This increase was primarily driven by an increase in IVAS revenues.

**IVAS revenues** increased by 115% to RMB948 million. The overall increase primarily reflected an increase in 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 133% to RMB534 million. This increase primarily reflected a 53% increase in the number of paying users to 1.2 million and a 53% increase in ARPU to RMB453 during the third quarter of 2014.

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- **Revenue from online games** increased by 52% to RMB235 million. This increase primarily reflected an increase in ARPU of 40% to RMB485. Also the number of online games increased to 183 as of September 30th, 2014 from 111 last year.
- **Revenue from others** increased by 207% to RMB179 million. This includes revenue from online dating, which more than doubled to RMB64 million quarter-over-quarter. Revenue for online game broadcasting, which increased by 173% to RMB46 million and revenue from membership program, which increased by 46% to RMB54 million.

**Online advertising revenue** were RMB52 million in the second quarter, 2014, compared to RMB45 million in the corresponding period, 2013.

**Cost of revenues** increased to RMB483 million. This was primarily attributable to an increase in revenue sharing fee and content costs, which increased to RMB301 million this quarter from RMB134 million last year. This increase included revenue sharing fee and content costs to performers, channel owners and content providers was primarily due to higher level of user engagement and spending and an increase in categories of emerging new business lines.

In addition, bandwidth cost increased to RMB88 million in representing 9% of the revenue, down from 11% of revenue in the same period last year, as we continue to manage our bandwidth costs through better allocation of bandwidth resources and infrastructure improvements.

**Gross profit** increased by 117% to RMB517 million. Gross margin was 52% compared with 49% in the corresponding period of RMB213. The increase in gross margin was mainly attributable to increased operating leverage and one-off costs related to the Happy Boy Show incurred in the corresponding period last year.

For Q4, we have regular seasonality adjustment that includes several year-end events and accruals, which will impact our margins. Additionally, due to the increased competition in our online game broadcasting business, we will see bandwidth costs increase slightly, allowing us to offer a similar high quality video resolution as other industry participants. All said, we expect our Q4 non-GAAP operating margin to be in line with current market consensus.

**Non-GAAP operating income** increased 96% to RMB345 million. Non-GAAP operating margin remained steady at 35% as compared to 36% in the corresponding period last year, primarily driven by increased sales and marketing expense this year.

**GAAP net income** attributable to YY increased 122% to RMB286 million from RMB129 million. GAAP net margin increased to 29% from 27% in the same quarter last year.

**Non-GAAP net income** attributable to YY increased by 89% to RMB322 million, while our non-GAAP net margin decreased to 32% from 35% in the same quarter last year, primarily impacted by increased sales and marketing expenses and lower foreign exchange gain in 2014.

**Diluted net income per ADS** increased to RMB4.77 or \$0.78 from RMB2.17 in the same quarter last year. Non-GAAP diluted net income per ADS increased to RMB5.37 or \$0.87 from RMB2.87 in the corresponding period 2013.

For the fourth quarter of 2014, we currently expect our net revenue to be between RMB1.08 billion and RMB1.1 billion, representing a year-over-year growth of approximately 76% to 80%.

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

• **QUESTION AND ANSWER SECTION**

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**Operator:**

(Operator instructions). Philip Wan, Morgan Stanley.

**George Meng, Analyst - Morgan Stanley**

Hey, good morning. This is George calling on behalf of Philip. Thank you very much for taking my question. I have a question regarding your game broadcasting business, because you highlighted in your prepared remarks that the competition is increasing.

I also noted that one of your channel or game broadcasting channels broadcasting the game of the other company actually got some -- I will say -- IP issue with the producer of that game. So I just wondered, first of all, do you see that coming for other games for your game broadcasting business? Number two, as you pointed out, the sponsorship fee for the professional gamers and also the broadcast hosts are actually skyrocketing.

We hear some anecdotal numbers, say like RMB5 million salary per year. So I just wondered what's your strategy over this? Are you going to compete with some of these start-ups on this sponsorship fees too for better talent or you will stay put on this regard? Thanks.

**Eric He, CFO - YY Inc.**

Thank you, George. I -- because your question is a little vague to me. Can you be a little specific? What do you mean the channels, other participant? Can you just bring out the name, because I--

**George Meng**

Yes. Yes. Sure.

**Eric He, CFO - YY Inc.**

-- don't want to guess the name, so I think you can just bring out the name, so I can answer very specifically.

**George Meng, Analyst - Morgan Stanley**

It's -- sure. It's NetEase, so that's Fantasy -- Westward Journey. Kind of -- did they ban that user or host from your channel, because that's their game? So they say they have the IP right over that game, so it's not allowed to broadcast on your channel. So I just wonder is that going to happen to some of the other games? Or is that overall a concern for you going forward?

**Eric He, CFO - YY Inc.**

Thank you, George. It's good. I think I already pretty translated this question to our CEO, David. David would like to answer the questions. David, please.

**David Xueling Li, CEO - YY**

(interpreted) I think in a world of Internet open and communication is the core of the essence of internet. That's why internet industry can be become so huge, so big after just more than a decade of developments recently. We believe that the gaming industry, online games specifically, is part of the internet business.

In the history of the internet in China or in a worldwide basis, we have never seen anybody who has done this kind of things to close up on their own loop. So we are very surprised by this movement of NetEase.

I think from our viewpoint, we believe that NetEase is this movement of blocking our games is actually specified as -- NetEase is actually withdraw itself from the game broadcasting business because not only does NetEase block people to broadcast their games, they actually don't broadcast any other people's games. So NetEase only broadcast is own game, Westward Journey and other series.

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So I think to us, it's a very surprising movement because this movement not only that hurt NetEase's previous efforts on the game broadcasting business, also NetEase will block their Westward Journey's future developments. We think that this movement will hurt their future prospects and future performance because game broadcasting business actually helps games to be distributed to among gamers. So I think NetEase's movement is going to hurt themselves in the long run.

We are very confident that game broadcasting business is going to grow even further and faster in the future because we have seen the recent development outside of China, very famous company like Riot, the developer of League of Legends in the US. They already open API, which actually will allow game broadcasting companies to have connections to retrieve game data, specifically from League of Legends and to broadcast, to help them to broadcast League of Legends.

I think the trend is on the right path and this openness will actually create even more audience and users for League of Legends in the future, and also will further push game broadcasting business as a big, a very big business industry in the future.

**George Meng, Analyst - Morgan Stanley**

Okay, thank you.

**Eric He, CFO - YY Inc.**

Next question please?

**Operator**

Gregory Zhao, Barclays.

**Gregory Zhao, Analyst - Barclays**

Good morning David and Eric. Thanks for taking my question and congratulations on the strong quarter. I have several quick questions. The first question is about our online gaming revenue. This quarter we saw very solid growth in Q3 and we want to know more about the drivers behind and what's the outlook of the whole of China's MMO game and web game sectors. This is my first question.

**Eric He, CFO - YY Inc.**

Okay Greg, yes. Yes indeed, I think in last conference call I already indicated that because of some of the problems in the pipeline of our online games, specifically web games. So our second quarter's online game revenue was a little disappointing: it only grew at 10% year-over-year. I indicated that in Q3, we see that our backlog of these games will come back to normal. So this is exactly what happens. In Q3, we have two games, two web games, performing very well. So I think that was the main contributor to the strong performance of our online game revenue in Q3.

**Gregory Zhao, Analyst - Barclays**

Okay thank you. My second question is about our online dating business. Just want to understand the current cross-selling between the dating business and our music business and what's the current ARPU compared to the music business and the gaming business.

**Eric He, CFO - YY Inc.**

Well I think yes, as David mentioned that our online dating business is a very new business but it has performed very steadily and very strongly. We actually believe that online dating business can become very important segments of our revenue generation business into the future. We have not disclosed specifically on the ARPU on online dating.

We did actually disclose the ARPU for online music, but I can indicate that online dating's ARPU is lower than online music.

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**Gregory Zhao, Analyst – Barclays**

Okay, thank you. My last question is about our gross margins, considering the online dating and game broadcasting is growing very fast. Considering the revenue mix changes, how will this impact our gross margin in the future? Thank you.

**Eric He, CFO - YY Inc.**

Well in Q3, as you can see that our gross margin performed very strongly. That was -- one of the reason for that was because the portion of our online game revenue has gotten bigger. Because for those of you who follow our Company closely, you know that our online game revenue is being booked as a net revenue basis. So with that, our online game business actually will generate higher margin for us, higher - a specific higher gross margin for us. So that's why in Q3, our gross margin was very strong, very big.

Moving forward, yes, I did indicate in my script that because of the heightened competition among online game broadcasting participants, we are going to provide more bandwidth for higher resolution streaming. That will -- that's going to temporarily slow our margin or lower our margin a little bit in Q4. That's why I said that non-GAAP operating margin is going to be pretty much in line with the current market consensus.

**Gregory Zhao, Analyst – Barclays**

Thank you. Thanks very much, Eric.

**Operator**

Jialong Shi, Credit Suisse.

**Jialong Shi, Analyst - Credit Suisse**

Hi, good morning management, thanks for taking my question. I have a quick follow up on the previous question on the game live broadcasting. Just wondered if you have seen any impacts on the user traffic and revenue on your game broadcasting business in the wake of recent NetEase incident?

**Eric He, CFO - YY Inc.**

Yes, hold on a second. I'm translating the questions to David. David would like to take on the question.

**Jialong Shi, Analyst - Credit Suisse**

Sure.

**David Xueling Li, CEO - YY**

(interpreted) Well I think we believe that the current competition in the game broadcasting business can short term temporarily create some noises in the marketplace, but over the long term, we think our market leading position will not be changed. The reason is very simple: we have the largest voice communication communities among gamers in China. Number two, we are the largest game portals in terms of internet traffics in China. So those two are very important for this long term sustainability of game broadcasting business.

We especially believe that the grass root player, the grass root users' competitions or contests are the most important part of game broadcasting business. Yes, we understand that professional game teams is very important, will catch lots of eyeballs short term, but in order to maintain those users and eyeballs over a long period of time, it's not an easy task.

So we believe we have built such a very strong foundation and base for us to have a very long term sustained competition with industry participants. We are very confident over the long term our game broadcasting business will win over other competitors, become the market leader.

**Jialong Shi, Analyst - Credit Suisse**

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Thank you for the color. My last question is, just wondered if management can provide some colors on the overlap paying users for your music and the online dating business in Q3?

**Eric He, CFO - YY Inc.**

Can you repeat the question? Online dating and --

**Jialong Shi, Analyst - Credit Suisse**

Online music.

**Eric He, CFO - YY Inc.**

Online music. You mean the paying users?

**Jialong Shi, Analyst - Credit Suisse**

Right yes, paying users.

**Eric He, CFO - YY Inc.**

Our online dating and online music paying user has grown very strongly, very steadily in Q3. Specifically, I think we have not disclosed our paying users for the game broadcasting business but I -- we actually disclose the paying users for online music business, right now if I'm not mistaken is 1.2 million, which is from the RMB1.1 million in numbers in Q2 to Q3. Our game broadcasting and game -- and dating business, both paying users have grown very steadily as well.

**Jialong Shi, Analyst - Credit Suisse**

Thank you. I'll get back to the queue.

**Operator**

Natalie Wu, CICC.

**Natalie Wu, Analyst - CICC**

Hi, good morning David and Eric. Thanks for taking my questions. I have two questions. The first one is, as you mentioned, average MAU in the third quarter reached over 105 million. So how much of the 105 million comes from online music business? Could you please remind us of your long term target of YY music's paying conversion ratio? Thanks, that's the first question.

**Eric He, CFO - YY Inc.**

Yes as we indicated that MAU numbers has grown steadily. In Q2, our MAU number was 100 million. I believe in Q3 our MAU number is 105 million. In terms of percentage for music, percentage for games, I think these are all detailed numbers. We have not very specific pictures yet, but I can tell you that from my impression that the online music business continue to gain monthly active users. As David indicated in his script, in the month of September, we launched a new mobile YY versions. That mobile YY is mostly geared toward online music business, so which actually created a lot of traction. So we would expect that in current quarter in Q4, our online game -- our online music business will continue to gain more users down the road.

In terms of conversion ratios from active users to paying users, I think the ratio currently is still at around 2.5%. I think over the long term our goal is to get above 5% first in maybe next one or two years. That's our long term goal.

**Natalie Wu, Analyst - CICC**

Thanks Eric. Actually several -- we noticed that several new competitors have appeared this year. In music there's [Bobo], in game broadcasting there's [Deluge] and CCC, et cetera. So with regards to your revenue sharing ratio, do you see any chance of increasing the sharing ratio to broadcasters on your platform amid current fierce competition?

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**Eric He, CFO - YY Inc.**

Well our revenue sharing ratios with our performers, with all these game teams, has been pretty stable, pretty consistent. So we don't see too much of the changes. You mentioned yes, there are a lot of competitors coming into the music field, coming into game broadcasting field. It creates competition, but so far I think our revenue sharing ratios has been fairly consistent.

**Natalie Wu, Analyst - CICC**

Thanks, that's very helpful.

**Operator**

Your next question comes from the line of Chao Wang of Nomura. Chao, please ask your question.

**Chao Wang, Analyst - Nomura**

Hi, good morning. Thank you for taking my question. I have two questions. The first one is on deferred revenue. So it declined sequentially in the quarter. Could you give us more color on that and which business line drove the decline in the quarter? Secondly, could you update us on your client-based game progress? Thank you.

**Eric He, CFO - YY Inc.**

Yes, the question regarding deferred revenue, I think deferred revenues is -- as all you know that is a liability to us, because we will keep a certain portion of the -- on service so that deferred revenue in Q3 compared with Q2, yes, it dipped a little bit, but deferred revenue in our balance sheet actually consists of many lines including game, music, dating and every -- using virtual items lines. I think specifically, there are two lines actually decrease a little bit. That is music and games.

The reason for them to decrease a little bit is because of the user behavior. As you know that when you actually use all your virtual items, then we will have to recognize larger portion of the revenue. When you actually save those virtual items and it has not been used, put into your inventory, then you have to defer to next quarter. So deferred revenue numbers will fluctuate over the quarter-by-quarter basis. So I think it's quite normal.

Number two, our client-based game business actually has progressed very well. It's a small reason for us to have such a good performance in Q3. Moving forward into Q4 and next year, we do think that client-based game business would actually represent bigger pies in this online game revenue for us.

**Chao Wang, Analyst - Nomura**

Thank you.

**Operator**

Alex Yao, JPMorgan.

**Alex Yao, Analyst - JPMorgan Chase**

Hi, good morning everyone. Thank you for taking my question. I have two follow up questions.

Number one is regarding your new initiative, the game broadcasting and dating business. What are the fundamental demands you addressed for the consumers that encourages them to join the platform and to make a payment, and what have you done to drive the monetization?

Secondly is how do you think about the addressable markets for these two businesses, and on a two to three years' view do you expect these two businesses to be as significant as your existing gaming and music business? Thank you.

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**Eric He, CFO - YY Inc.**

Yes, actually, you said game broadcasting business, and what was the second one? I missed it, sorry.

**Alex Yao, Analyst - JPMorgan Chase**

Online dating.

**Eric He, CFO - YY Inc.**

Dating. Sorry, okay, dating. Got it.

Well, I think that both new areas actually utilize virtual item-based monetization. I believe the whole fundamental is very similar to our current online game business and online entertainment business, because online dating and game broadcasting business is something that users will have a very strong engagement and they will feel their belongings into different teams.

So they will support the players and they will support the games. So they would spend money to buy virtual items as gifts to those players. And on the dating, it's a little bit different because the people who actually participate in the dating scene, they are attending a show.

They just want to let people know that they are capable of making friends there. So they will spend money to let people know their status. That is a main incentive for them to spend money. Both of them, both two lines of business we believe have a chance to become even bigger.

Because as I see, as we see, that the industry trend, explained by David before, that the industry is becoming even more open into the future. So more game companies would open up their platform or their games, allowed us to have more value-added service to their games. I think that will actually spur more interest of our users to participate into this business.

In terms of dating, as you know that dating has been -- or meeting people has been a very important services among internet users in China. We believe the next step for our dating business is to go out of the YY platform to attract users from outside of the YY platform. If we can be successful doing that we believe this online dating business could have a very long-term future and big future for us.

**Alex Yao, Analyst - JPMorgan Chase**

Got it. Thank you very much.

**Operator**

Na You, ICBC International.

**Na You, Analyst - ICBC International**

Good morning David and Eric. I have some questions here for a quick follow-up. First a question in regard to the next year's growth. Do you have any expectation about 2015's growth? What's your focus for the next year and what the new revenue new driver will be? This is the first question.

Second question is regarding the mobile side. Can you share with us what is the updates for your mobile business, like the traffic contribution or revenue contribution, and the metrics in that will help us understand your business and would be helpful. This is the second.

The other and the last question is regarding the competitive landscape. As we know, Momo is going to list in the US and its momentum is quite strong. Do we see any potential impact on user acquisition from these players? Thank you.

**Eric He, CFO - YY Inc.**

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Yes, I would translate your questions to David a little bit and I will answer the first one. I would like to ask David to answer the second and third one.

**Na You, Analyst - ICBC International**

Thank you.

**Eric He, CFO - YY Inc.**

Okay, for the first question, yes, we understand that the market actually already has built in 2015's new growth rate. I believe, if I'm not mistaken, the market expect us to grow our top line in the range of 45% to 50% from 2014's level. That is current market consensus.

We think this goal -- we think this revenue growth is very challenging, but you notice we are a very strong Company, we love to have a challenge. So we would like to say that for 2015, I think if we can deliver a revenue growth of 45% to 50% on the basis of 2014, we will be very happy. I think that's the goal that we would wish we can deliver, and that is the current market consensus.

As for your number two questions, for mobile and for the competition from the players such as Momo I would like to ask our CEO David to answer your question. David, please?

**David Xueling Li, CEO - YY**

(interpreted) Well, in terms of mobile strategy I think our strategy has been very consistent. It is our belief that we would like to provide service to our users and specifically our service is provided by different functionality.

For example, our music business will use Mobile YY to deliver our real-time online streaming services to our users. So we have Mobile YY as an app. And for education business we will have a separate app to provide the services to our users. For game broadcasting business we have separate apps to provide services. For online dating, we will have separate apps to provide the dating services.

On top of that, the reason we have added some additional features such as asynchronous content or static content, this is something new to us because in the past the services or the streaming that we provide mostly are real-time. Now we believe this asynchronous content will help our users to understand our community a little better, a little deeper, because there are a lot of content on our platform which is very premium content.

We would like those content being remembered, being left on our platform so that users can come back and enjoy the content many times. So we added those new functions to Mobile YY. We have seen actually those functions work very well for us. That is the answer for the mobile part.

Well, I think all those asynchronous content help us to disseminate our content much better among those social network platforms. Recently there is a song called (spoken in foreign language) becomes very popular among the internet users and that is actually an original song from YY platform. We hope that this type of thing will become even more popular and widely disseminated in the future.

Well, Momo actually, the founder of Momo is Mr Tang, Tang Yan. He is actually the ex-colleague of David himself at NetEase. So they know each other well, and he would like to congratulate Tang Yan for the wonderful job he has done on Momo, and lots of congratulations to Momo.

In fact, Momo is a company which is different from us. We don't think that we have too much competition with Momo because our platform, as all you know that is, is mainly based on real-time communication, real-time streaming and that's the core of our service.

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On YY platforms the format, the style is like a show. It's like a party. So our users, when they actually get onto YY platform they feel like they are a part of a party, a part of a show.

So just like you are attending a Halloween festival so that you are part of it, and being part of it is entertainment for themselves. So this type of user participation and user experience is very different from Momo. So we don't see there is too much direct competition between Momo and YY.

**Eric He, CFO - YY Inc.**  
Next question?

**Operator**

Vivian Hao, Deutsche Bank.

**Vivian Hao, Analyst - Deutsche Bank**

Hi Eric, thank you for taking my question. I've got two questions. First one, we've seen there's some deceleration in the paying user for music while the dating side seems to be off a very strong trajectory. Just wondering if there is any cannibalization between these two categories.

And the second question then is can you give us some color on the PC game contribution for this quarter? We understand you have joint operation with Shanda and GA. Just if possible can we have a forward-looking outlook for the two -- for the MMORPG games that's currently under our operation? Thank you.

**Eric He, CFO - YY Inc.**

Thank you, Vivian. Yes, first of all I have been actually said very many times, so far we have not seen any cannibalization between music and dating.

I don't know where you get a number from that our paying users of music is declining. No, but if you actually look at the third quarter's numbers you maybe misinterpreted, because in Q3 our music revenue is particularly soft, as I have indicated many, many times in the past. So I think third quarter is not representative at all.

From our backend metrics, we just don't see there is any cannibalization between music and dating. To be honest with you, those guys who spend money on dating shows is a bunch of guys coming out of nowhere; we don't know where are those guys before. They are not a spender and big spenders in our music business, they are not a big spender on our game business.

So it's quite interesting. Just like David says, the diversity of our platform, our users, is amazing. You never know what other new activity is going to emerge from our YY platform in the future, and it is quite surprising. That's number one.

Number two, you're talking about this client-based game collaborations with other game companies. Yes, as I indicated before, that we started our initiative in the beginning of the year and it's been three quarters. The progress has been very good, albeit a little slow.

The reason is that when we actually collaborate with all those client-based online game developers, they need to do a little work on their games such as changing the skin a little bit, changing the graphics a little bit, so that when we actually cooperate with them to run their games, the game that we cooperate will not actually cannibalize their existing games. From the outlook you would think that that's a different game but the core is very similar.

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I think this approach is yielding some fruit now. In Q3 it's a small portion of the inputs for us to grow so strongly in the gaming revenues. I think moving forward into Q3 and 2015, I expect that client-based game collaborations is going to help us to grow our game revenues even further into the new year.

**Vivian Hao, Analyst - Deutsche Bank**

Thank you.

**Operator**

There are no further questions. I would now like to pass the call back to management for closing remarks.

**Eric He, CFO - YY Inc.**

Well, thank you very much. I think we reported a great quarter and thank you all for your participation. See you next time.

**Operator**

Ladies and gentlemen, that does conclude the conference call for today.