Tian Ge Interactive Holdings Limited (1980.HK)
Second Quarter 2014 Earnings Conference Call Script
August 27, 2014

Operator:

Good evening, everyone. And welcome to Tian Ge Interactive Holdings Limited's second quarter 2014 result announcement conference call. (Operator Instructions) I must advise you that this conference is being recorded today. (Operator Instructions)

At this point, I would like to turn the call to Mr. Kenneth Ke, Tian Ge's Investor Relations Director. Please proceed.

Kenneth Ke:

Hi everyone. And thank you for joining Tian Ge Interactive Holdings Limited's second quarter 2014 earnings conference call.

Before we begin, I will remind you that in this call, we will make "forward-looking statements" that are based on our current expectations, assumptions, estimates and projections about Tian Ge and its industry. All statements other than statements of historical fact we may make during this call are forward-looking statements. These forward-looking statements speak only as of the date hereof and are subject to change at any time, and we have no obligation to update these forward-looking statements.

Joining us on today's call are Mr. Mike Fu, the Company's Chairman, Executive Director and CEO; Mr. Richard Mai, the Company's Executive Director and COO; Mr. Paul Keung, the Company's CFO.

At this time, I would now like to turn the conference call over to Mike Fu.

Mike Fu:

We are happy to share our second quarter 2014 earnings results, which demonstrate the significant progress we have made in expanding and developing our overall business.

- We grew monthly active users by 27 percent year over year to 13 million,
- Monthly paying users increased by 35 percent year over year to 332 thousand,
- And, revenues for the first half grew by 32.5 percent year over year to 344.3 million RMB.

Our chief accomplishment in the first half was our successful IPO on the Hong Kong Stock Exchange. The listing brought in proceeds of more than 200 million USD, and will set the stage for future growth.

Looking ahead, we are very excited about our Company's growth potential.

- Our "many-to-many" live social video business continues to experience strong user growth. We remain pleased with our ability to convert registered users to active users. We continue to drive user engagement and our monetization remains healthy
- In recent months, we have launched new product features on both online and mobile of our live social, "many to many" platform. We are pleased with its early impact on our 9158 community. We believe these updates could have a positive impact on the growth of our ecosystem. We expect these updates to deliver a positive effect on the growth of our rooms, hosts, users and revenues.
- We are excited about our long term mobile growth. For the second quarter, mobile active users for our live social community were 7.4% of our monthly active users, up from 4% in the same period last year. We expect this figure to grow over time
- We are also working hard to develop new content and verticals. Our IPO brought significant interest from a number of potential partners in health care, education, and entertainment. We are in active discussions with our cornerstone investors and other parties, and we expect to see positive developments in the future.

- We are also excited about our efforts in the one-to-many business. Our one-to-many JV partner, Qihoo, participated in our IPO and invested $5 million USD as cornerstone, and we are excited about the long term business outlook.
- Our mobile game business continues to contribute to our growth and our Games and other business was 8.1% of our total revenues for the first half of 2014. We hope to launch several new games in the coming quarters that leverage our user base, our ecosystem, and our live social video technology.
- We are also excited about our O2O business. Last month, we opened our third testing Karaoke facility in Hangzhou and we are happy with its performance to date.

We are confident in the potential of our platform. Looking ahead, we will continue to leverage its strong technological capabilities, large loyal user base, and established social ecosystem to successfully expand into new opportunities.

At this point, let me hand over the call to our CFO Paul. He will discuss in more detail our platform's development, future strategy and financial results.

Paul Keung:

Thanks Mike and hello everyone.

First of all, we are very happy to begin a new chapter of our company's development as a publicly listed company on the Hong Kong stock exchange, where we have the opportunity to join the ranks of many other renowned and innovative Chinese tech companies. The listing and proceeds thereof will help set the stage for our continued expansion both organically and through strategic investments.

Before I get into our financial results for the second quarter, I want to first discuss Tian Ge's unique positioning as well as future strategy and initiatives.

Tian Ge currently owns and operates a one-of-a-kind interactive platform, which satisfies a strong demand in the Chinese Internet community. With China's rapid urbanization and the resulting dispersion of people throughout China and the world, the real-time interactive capabilities enabled by our technological infrastructure erodes barriers of distance and facilitates interaction amongst users globally.

As Mike highlighted, our platform continues to build momentum as we attract more users, foster elevated interactivity and deliver content which inspires and enriches our users' experience. We intend to leverage the optimal positioning we have fortified in the music and entertainment category to further expand and diversify into new content genres, including but not limited to: finance, health and lifestyle, and e-commerce.

Recognizing the trend towards mobile in online entertainment, we plan to facilitate complete multi-platform usability and functionality, as we leverage our brand, user base and technology to give users the flexibility to enjoy our content anywhere at any time. Our mobile strategy aims to take full advantage of the technological and infrastructure improvements in China, our knowledge of video and audio compression, while also leveraging the continued rollout of 4G services in China, which in aggregate will support high-quality multi-cast video streams on next generation mobile devices

In addition, leveraging the strength of our user base and social ecosystem, we have expanded into the mobile games market through the launch of our first mobile game, "Three Kingdoms", which today has developed quite a following as it incorporates many themes and features that resonate well with Chinese gamers. We're taking this as a test case, and we're learning. We have soft launched a new live-social-video-embedded game and expect to release an additional six to eight games over the next six to twelve months, several of which will feature interactive video features. The introduction and expansion of gaming on our platform allows us to leverage our large social video community, diversify our revenue mix and drive future growth.

Another exciting initiative which continues to progress well is our O2O offering. We have leveraged our live social video know-how and technological capabilities to offer an O2O experience, allowing real-time interaction between people located at physical entertainment venues accessing through smart-TVs, or even through karaoke establishments. As Mike mentioned, we've now opened our third facility in Hangzhou.

Lastly, while our focus is currently on our content and platform's expansion domestically, we see the Chinese speaking international diaspora as an opportunity to further advance our platform's penetration outside of Mainland China. We will begin pursuing this goal by carefully considering partnerships, mergers and acquisitions and other strategic alliances with key partners, who possess large user bases and similar interactive product offerings, and in both upstream and downstream markets.

Now, let's move quickly to our quarterly financial highlights. Let me first clarify that all the figures I'm giving today are in Chinese RMB. And all the percentage changes for the first half 2014 refer to year-over-year comparisons.

Total revenues for the first half of 2014 increased by 32.5% to RMB344.3 million. **Total revenues** for the second quarter of 2014 increased by 0.6% to RMB172.6 million.

- **Revenues from Live Social Video Platform** for the first half of 2014 increased by 24.6% to 316.5 million. Quarter over quarter, these revenues increased to RMB158.0 million.
- **Revenues from Games and Others** for the first half of 2014 increased by approximately 381.0% to 27.8 million, driven by the launch of the mobile game "Three Kingdoms". For the quarter, revenue from games and other increased 11.9%, to RMB14.7 million.

Cost of revenues for the first half of 2014 increased by 78.9% to RMB54.1 million, primarily due to the increase of commission charges related to the launch and operation of our mobile game "Three Kingdoms", which was developed in cooperation with a third party operator. **Cost of revenues** for the second quarter of 2014 decreased by 2.3% to RMB26.7 million, primarily driven by the decrease of the business tax and related surcharges.

Gross profit for the first half of 2014 increased by 26.4% to RMB290.2 million. **Gross margin** during the same period was 84.3%, as compared to 88.4% in the prior year period. **Gross profit** for the second quarter of 2014 increased by 1.1% to RMB145.9 million. **Gross margin** in this period increased to 84.5%, versus 84.1% in the prior quarter.

On a year over year basis, you will notice gross margins were lower. This is due to higher cost and lower inherent gross margins of our newly launched mobile game, "Three Kingdoms." If you exclude the revenues and costs related to the mobile game, our gross margin for our live social video business remains relatively stable -- between 87% and 89%. We have provided information in Notes to our Interim Financial Results, classified as Expenses by Nature.

- **Sales and Marketing Expenses** for the first half of 2014 increased by 23.2% to RMB94.8 million, primarily due to the annual increase of promotion and advertising expenses. **Sales and Marketing Expenses** for the second quarter of 2014 decreased by 10.4% to RMB44.8 million, primarily driven by the seasonal decrease of our promotion and marketing expenses.
- **General and administrative expenses ("G&A")** for the first half of 2014 increased by 220.0% to RMB69.6 million, and includes approximately RMB32.0 million related to IPO listing expenses. For the second quarter, G&A increased by 85.0% to RMB45.2 million, and again includes approximately RMB20.2 million in listing expenses, and nearly RMB12 million in stock based compensation expenses.

  - For the quarter and first half, if we exclude the impact of listing expenses and the impact of stock based compensation issued in May related to our Pre-IPO employee share grants, G&A would have increased at a pace less than our revenue growth.
- **R&D expenses** for the first half of 2014 increased by 7.6% to RMB34.0 million expenses. **R&D expenses** for the second quarter of 2014 increased by 24.6% to RMB18.9 million, primarily driven by an increase in game development outsourcing expenses.

Operating profit for the first half of 2014 was RMB105.9 million, compared to RMB112.3 million in the prior year period. Excluding listing expenses, operating profit would have increased approximately 23% over the year ago period.

Our income tax expenses increased to RMB20.7 million in the first half 2014 from RMB17.1 million, an increase of 21% year over year. Our effective tax rate for both periods was approximately 15%.

In accordance with IFRS standards, **Net loss** attributable to equity holders of the Company for the first half of 2014 was RMB174.4 million, compared to RMB91.9 million in the prior year period.

Net loss for the second quarter of 2014 attributable to equity holders of the Company was 202.0 million, compared to a **net profit** attributable to equity holders of the Company of 27.7 million in the previous quarter, primarily attributable to the fair value loss of convertible redeemable preferred shares.

Our net loss is due to an IFRS reporting requirement that requires us to report the fair value loss from convertible redeemable preferred shares at each corresponding and relevant reporting period.

The loss and changes in fair value are non-cash, and are interestingly the result of the continued increase in the equity value of these shares. We issued these convertible redeemable preferred shares to IDG, a venture capital firm, several years ago. Upon completion of the IPO, these convertible redeemable preferred shares had automatically converted into Ordinary shares on a one-to-one basis and there will be no fair value gain or loss associated with these shares after December 31, 2014. As you will note in our offering prospectus, IDG did not sell any shares in the IPO, and now holds this interest in the Company only in ordinary shares.

Adjusted net profit for the first half of 2014 increased by 31.1% to RMB131.7 million. **Adjusted net margin** during the same period was 38.3%, compared with 38.7% last quarter.

Adjusted net profit for the second quarter of 2014 increased by 8.9% to RMB68.6 million. **Adjusted net margin** during the same period increased to 39.8% from 36.7% last quarter.

As of June 30, 2014, we had cash on hand, cash in the bank, and financial assets held for sale in the aggregate amount of RMB448.1 million. Our available for sale financial assets are RMB-denominated, principal protected structured deposits with interest rates between 2% and 6% per annum with maturities of less than one year offered by large commercial banks in China.

This figure excludes net proceeds of 1.73 billion HKD related to our IPO in July 2014, which is equivalent to approximately 1.4 billion RMB and $225 million USD.

On our balance sheet for June 30, 2014, you may notice that we have US dollar denominated bank borrowings of approximately RMB172.3 million. These are pledged with restricted cash deposits held in onshore in the amount of RMB187.0 million, which is actually larger than the amount borrowed.

As a result, we effectively have no significant debt or liabilities on our balance sheet, and approximately RMB1.8 billion in net cash and related assets if you reflect the impact of the IPO.

For the six months ended June 30, 2014, our capital expenditures were approximately RMB63 million. This includes 45 million related to purchasing of platform licenses, 6 million related to decorations of our office space, and 8 million related to pre-payment of new office space located in Shanghai, and 4 million related to other office equipment, servers, etc.

With that, I would now like to open the call to Q&A. Operator, please open the line for questions.

QUESTIONS AND ANSWER SECTION

Operator:

Cynthia Meng, Jefferies.

Cynthia Meng: I have a question on the revenue growth rate. Can you give us some more color about the live social video community industry? We see the revenue generated by live social video community was up 25% year over year in the first half. That is much lower compared to the online music revenue growth rate of over 200%. Why? What is the main reason for the difference? Thank you.

Paul Keung: Thank you, Cynthia, for your question. I'll give brief explanation, and Mike will also speak to this as well.

First, as you know, and as we've indicated many times in the past, our core product and core focus is on many-to-many. This is a different business than YY Music's one-to-many. While there are some similarities – for example, there is a video camera – that is, there is at least one video camera -- and there is also gifting between a user and a host, there are many user behavior differences with the many-many product. Therefore, it's very difficult to compare the two (directly), if you were to look at growth rates and compare demand drivers of the business.

Mike Fu: [Foreign Language]

Paul Keung: Allow me to translate Mike's response. If you look at the overall industry in aggregate, YY appears to be the fastest-growing in the live video streaming industry. But if you separate one-to-many from many-to-many, or look at the industry in aggregate, we are still among the market leaders of many to many growth rate, and still a market leader in overall growth.

Cynthia Meng: Thank you.

Can I ask a follow-up question on the monthly active user of the live social video community? MAU was up about RMB3 million in the second quarter. Can you give us some more details behind that, such as percent of users coming from Tier 1, Tier 2 and Tier 3, or lower-tier cities? And how should we anticipate the main source of user growth going forward on the MAU?

In addition, also, what is the typical monthly time spent of these monthly active users? Thank you.

Paul Keung: One second, (please) allow me to translate the question for Mike.

So first, let me repeat the question (which) was specifically about the MAU growth, and how much is in Tier 1, 2 and 3 cities; and how to look at the growth – as to where the source of growth is (coming from). Let me point to several areas.

First of all, we don't provide the growth as relates to, and by tiered cities. Operationally, and more importantly, we focus (our attention) on each of these communities and social networks within each room, we look at the growth of these rooms (individually) themselves. So what we tend to have is we open a room a new vertical. There's a group of hosts and a user community that starts to bond together. Over time, many users start coming in. A portion of users are brought in by other users in community -- so friends dragging friends into the same room.

Another portion of users could be just you and I searching online for an experience of going to different rooms, and then we'll find one that we enjoy. And we start to new social network that way.

From our financial figures, you'll see that we disclose registered users –at the end of different periods, which is cumulative number. You could take the registered users that we've added on a net basis over different periods and compare that with marketing and promotion expenses, which are disclosed in our financials. And that also gives you an idea of how much we spend to bring users in. And another important number that we try to work on, as Mike mentioned in his comments, was try to convert our registered users into active users efficiently.

Richard Mai: Yes, this is Richard. I want to add one more point is that -- as we've indicated (in the past) that most of our users are coming from the Tier 2 or lower cities. This is the trend what we see before, and we see the additions of new users are still consistent with the prior trend on the platform.

Paul Keung: And then, your last question you added about time spent. The most recent statistic we have was for 2013 -- the average time spent for our active user was approximately 20 hour, actually just over 20 hours per month. It is also important to note is that we recently launched a number of mobile applications for our various communities, and mobile has helped to improve the time spent with this new group of users.

Cynthia Meng: Thank you.

Operator:

Mike Chen, UBS.

Mike Chen: Thank you for taking my call, and congratulation on the quarter results.

I have two questions. First of all is -- can you give us the breakdown on revenue growth for your different live video channels? So any color for the second half would be appreciated.

My second question is your revenue forecast in second half; also any marketing track from the mobile game revenue could be appreciated. Thank you.

Paul Keung: Hi, Mike. Thank you for your question. I will answer your first question, and Richard will answer your second question.

As relates to growth by different communities and brands, and color for second half -- we do not disclose the growth by different communities or by brands. But you can probably evaluate a number of indicators in our business that could be helpful. For example, Mike mentioned that we have rolled out some new product enhancements and updates on the 9158 community and it is having very positive results.

So that's probably something you could use, which suggest 9158 is one of the communities that is probably growing faster than the average -- the average for all communities in aggregate and on a go-forward basis, assuming that these trend continues.

Secondly, we also note that if you look at the numbers from last few years, of which is already disclosed in the prospectus, you'll see much of the growth in the previous periods originated from the integration of Sina Show. So it's fair to say from what's reflected in our revenue – and fair to assume that for this business (Sina Show), much of the super high growth is already behind us.

And recent years, we launched many new verticals on Sina Show. And when you're watching new verticals and genres, those tend to take a longer time to generate new revenue growth. So therefore, Sina Show's probably on the lower end of the growth scale versus the portfolio in aggregate.

And as relates to the second half of the year, if you look at the overall business in general, I can point to two indicators. First, if you look at the rooms' growth, the host growth, and user on-air activity, those tend to be leading indicators of the growth of our business.

Second, if you look at the revenue growth in the first half of the year as a proxy for the second half of the year, we note that, as Mike mentioned some of the updates of our business, we're very happy with current trends of our business.

There is a footnote, as you'll seen in your results and in the press release, talking about a change to a VAT recording of taxes, which results in a reduction in reported net revenues. And the accounting change will have a negative impact to the revenues reported from June 1st and into the second half of the year, which will also impact the reported growth rate. Nonetheless, beside the change, profit margins should remain healthy.

And the next question I'll refer to Richard.

Richard Mai: For the growth of the mobile game, to answer the question. So we already have one mobile game, the "Three Kingdoms," which had been launched last year. And additionally, we have initiated a beta testing the launch of our new live social video embedded game, which is cross platform.

This game "Three Kingdoms" has shown very good performance in the first half of 2014. And for the remaining year, we are targeting for launch another six to eight mobile games. So now we expect -- although this game portfolio is still in early stage, we expect there will be great performance from these games.

Mike Chen: Any impact on the margin side from your mobile game?

Richard Mai: For the first quarter, you can see that for the mobile game, there have some impacts. But our overall margin has been a little bit down due to the lower margin of the mobile game.

The overall margin for the online video communities, that margin is still kept healthy as high as 88%. But overall gross margin has been down due to the other mobile games during their ramp-up period. So the gross margin is a little bit lower.

So in the second half, we expect the same trend.

Paul Keung: Yes. So just to clarify, in terms of building your models, our mobile game business is inherently a lower -- a gross margin business. The gross margins -- when you model it, you'll see in our disclosures the gross margins per the mobile game business today is around 50% or so. So you could probably adopt that in your models currently. And that will, of course, on a blended basis reduce the overall gross margins that we reported, which is a decline from 88% to 84%.

That being said, you can see that net margins of the overall business actually are up, when you take out the listing expenses and share-based compensation expenses. So therefore, in aggregate, the mobile game is potentially quite profitable.

As relates to modeling for the balance of the year -- I think what Richard is highlighting is that we do not expect the mobile game business to be a meaningful profit contributor this year as we continue to invest in developing and integrating it with our live video social platform. But it will be and hopefully an important profit contributor in 2015.

Thank you.

Operator:

Natalie Wu, CICC.

Natalie Wu: I noticed that there is some decline in paying conversion ratio of live social community platform business in the second quarter. The sequential increase of monthly paying users in Q2 is not as much as monthly active users. So just wondering -- can you give us some color on expectation on this business? Especially, what do you think the paying conversion ratio will reach in the mid to long term? Thanks.

Paul Keung: Regarding question as to the paying ratio -- the growth of paying active users in Q2 versus Q1 – from what you're seeing in the figures-- it's hard to suggest these trends suggest a broader trend. There's actually specific explanations if you analyze by individual community and platform.

The number you're stating is, number one, a blended number. Number two, a more important trend is to note that our paying ratios have, in general and over time, and in recent quarters, remained relatively stable. Note that there may be some seasonal effects. You tend to see a very strong growth in paying users in Q1 as relates to some of the seasonal holidays and the impact of the certain events that we may hold (over Chinese New Year). And to the extent we delay certain special or promotional events, or even product launch timing, these factors could also impact the paying ratio in the quarter.

Natalie Wu: Okay. That's very helpful.

I still have another question, if I may, about the new live video embedded game you begin beta testing in July. Can you share with us its retention rate, as well as ARPU paying conversion ratio compared with other mobile games of the same kind, but without live social video embedded features? Thanks.

Richard Mai: For the new game, as you mentioned -- but it is still at a very early stage. So we can see that the retention rate and the ARPU is higher at its very initial stage. But I think it is too early for us to share this number with you, because we are still testing this number. And we believe when -- in a later time, when the game goes to commercialize, we will share this number with you.

Paul Keung: Additionally, it (new live social video game) was just in closed beta and only recently went into a small open-beta format.

Natalie Wu: Yes. Thank you, Paul and Richard.

Paul Keung: Thank you.

Operator:

You Na, ICBC International.

You Na: Have two questions -- first regarding to the mobile business. Could you share with us what's the outlook and your expectation of mobile adoption of your live social video platform?

My second question is a quick follow-up regarding to the mobile games. What type of mobile games that you plan to launch in the second half of this year, and next year? Also, what's your expectation about the revenue contributions from these mobile games?

Also, if you can share with us how many employees working on the mobile games in your team now? Thank you.

Paul Keung: I'll give that question to -- (inaudible) will translate, and Richard and Mike will answer the questions.

Mike Fu: [Foreign Language]

Paul Keung: I'll translate the answer.
Mike answered first and the second question regarding the types of games we're launching. We primarily focus on the most popular theme, proven themes, such as card style and RPG. –In aggregate, we're focusing on games with common play features and patterns, or genres that are already proven. Our games under development have two key attributes: they are games with either a large revenue base and/or an established and large user base.

The key difference, of course, as he mentioned and highlighted, is that we'll be leveraging our live social video features and our ecosystem. And there's also a number of other exciting things (products) due to come out, but it's probably too early to talk about those right now.

And then, regarding the first question on the mobile adoption, Richard will --

Richard Mai: Yes. Thank you, [You Na].

As you can see that monthly mobile active user as a percentage of our total active user has increased to 7.4% in the second quarter 2014, which has been up from the 3.9% in the same quarter last year.

So what we think is that this figure will continue to increase over time. And we continue to launch new product update, features, and expanding our mobile capability across online communities. So now, the revenue contribution is only in the single digit. But we expect this figure to increase significantly in the next year.

Now, the mobile ARPU is low. Because we only launch mobile payments feature in the fourth quarter of last year and the first half year of 2014. Thank you.

You Na: Thank you. And if I may, I have one quick follow-up question here. Could you share me any update on your O2O investment? Any color will be helpful. Thank you.

Paul Keung: Sure. Actually, Mike did mention that earlier. We opened our third testing facility in Hangzhou recently. You're welcome to come visit it. If you come to Hangzhou, we can -- we would be happy to take you around and show it to you. I think we're very happy with the preliminary results.

The rooms that have installed our software are outperforming the rooms that have not installed, or at least outperforming the expectations of what the rooms would've done without our software. So clearly, users are enjoying it. And we're still testing different type of features with these operating partners.

Richard Mai: Yes. In addition to what Paul has mentioned, we have recently entered an alliance with the Wanda group, to cooperate for offline karaoke software rooms, which hasn't started. We will install the new software in their karaoke and help them to improve the stickiness and the monetization.

So now we have just began our operation. So we'll let you know the result in a later time.

Paul Keung: So to clarify -- we're exploring four new locations.

You Na: Thank you. That's all my questions. Much appreciated, thank you.

Operator:

Cheng Cheng, Pacific Crest Securities.

Cheng Cheng: Quick question -- I was wondering, when we're looking at the second half in seasonality, is there any kind of promotional events you should be thinking about when it comes to MAUs or, I guess, ARPU for the live social video business?

Paul Keung: Okay. Regarding the question, seasonality for second half of the year for active users and paying users, the answer is -- on a year-over-year growth basis, you should not see a meaningful seasonality. What you may see is different trends from time to time.

So for instance, Mike mentioned that we did a number of product enhancements and updates, and tested it. In particular, he highlighted the 9158 platform. So you can see, if you actually played it six months ago versus today, there has been some changes. And he's very happy with those changes.

What tends to happen is when you launch those types of changes in there, you'll see initially a slowdown in us adding new rooms and adding hosts as we adopt the features and test it. And then, subsequent to that, you'll see rooms and hosts start to increase. And subsequent to that, if it works, you'll see an increase in monetization.

So that's the value you see, just based on product development, is probably much greater than that, you'll see, in terms of timing of the year.

Cheng Cheng: Great, thank you.

And just maybe on revenue per host trends -- it's remained pretty stable for the past year. I was wondering, how do you expect that to trend longer term? Because it seems like as hosts be on the platform for longer, they should be becoming more efficient, I guess.

Paul Keung: Let me first try to answer your question, and Mike and Rich will probably add as well. The interaction is between user and host on the platform. So the hosts and their role in our ecosystem in the rooms -- we want to highlight that a lot of (technical difficulty) platform isn't a primary content generator, if you think about content. The content's generated by these social interactions.

To give you an example. And I think you might be referring to some of the one-to-many models, where the primary content generator is a single host. In our community, you have a minimum of at least three hosts in a single room, and they may change throughout the day.

Second, our hosts are incentivized, to create social interactions. So one of their incentives is to get users to go on-air and for users to interact with each other, which you'll see that from different indicators that we track on our platform. So therefore, our host -- in terms of what I said was they're actually -- their incentive is to grow the value of their room, or the room families within the community, as opposed to build the value for themselves individually.

That being said, you do see hosts, too, become very popular, or users that become popular. And they travel from room to room and sing to promote themselves, much like we have a traveling band or a traveling singer. That does happen throughout our platform. And that we continue to see. And that's just part of the organic nature of what our platform is about.

Richard Mai: Right.

Just adding one more point is that actually, our users on air are almost 20 times larger compared with our performers (& hosts). So actually the most of interaction is from users active on our platform to share their performance, their knowledge, and to share with other user.

So what we see is that with more interactivity, our rooms and our platforms -- that will help us to increase the stickiness and also the monetization of our financial results.

Cheng Cheng: Okay, great, thank you.

Maybe one last question, more of a housekeeping item. I'm just wondering, on a diluted share count basis, what should we be thinking for when we look at Q3 and maybe Q4?

Paul Keung: Okay. In the interim report and the prospectus, you'll see that after the IPO, we had 1,217 million shares as stated on the cover the prospectus. Then there was the over-allotment, which results in a number increasing to 1,262 million. And this is probably a good figure when you think about the total shares outstanding on a diluted basis. What may be missing in that figure, of course, are the options, which will vest over time and be included in that figure, offset by the extent you have options, either expired or terminated from that count as well.

So that's probably a good starting point, when you think about [a] fully diluted number pro forma post IPO.

Cheng Cheng: Okay, great. Thank you, guys.

Operator:

Tracy Hu, TrustBridge.

Tracy Hu: I have two questions about the industry-competitive environment. Firstly, could you add some color on the competitive environment for the live social video business? I mean, for both many-to-many and one-to-many models? Who do you consider as your primary competitors? That's my first question.

Paul Keung: One second, I'll just speak to Mike.

Mike Fu: [Foreign Language]

Paul Keung: Allow me to translate the question and answer. And so Mike mentioned that we're focused on the many-to-many market where there are basically two major competitors -- one's Guagua, the other one's VV. As we evolve, we continue to - we believe we are in taking (market) share and offering better content than them. We've also had some stars and users who have joined our platform, and came from those other many-to-many platforms.

Secondly, Mike mentioned that we have had been in active discussions with our competitors. He did highlight both Guagua and VV. He also made another comment -- and said there was a possibility of industry acquisition and consolidation. What he's referring to is that we're in very close observations, given our strength in the business and our leading position in our business.

Mike Fu: [Foreign Language]

Paul Keung: Okay. And then, on the one-to-many business, Mike says it's still an intensely competitive environment right now. There have been a number of things you may've read in the media and blogosphere which suggest companies such as (inaudible) who have been impacted by intense competition, may have suffered losses and may even potentially exit the business.

Richard Mai: Yes. I want to add two more points. First, as we -- I think as iResearch disclosed before, the markets for online video communities will grow healthily in the next several years. So for this year, we still see the (strong) market growth increasing for both many-to-many and the one-to-many market.

Secondly, we see that after the IPO of Tian Ge, we are clearly dominant in the many-to-many market. Also, (our position) it may give more pressure to our competitor in this market. So this is two more things I could add.

Tracy Hu: Thank you. Very helpful.

My second question related to YY. On their last conference call, they mentioned providing minimum sharing guarantees to their hosts to attract them away from other platforms. Do you also provide similar guarantees to the hosts? And are you seeing any competitive pressures from them?

Thank you.

Mike Fu: [Foreign Language]

Paul Keung: Okay. Yes, we are paying very close attention to the recent comments by YY as relates to impact to our business and on our many-to-many product across eight communities that we have, we have not experienced any impact as relates to costs of hosts and operations. We definitely believe these may have an impact on companies that are focused on the one-to-many market, particularly 6.cn, and even ourselves in our one-to-many Sina Showcase could have an impact. And we do suspect that they may try to poach some of our talent away. That being said, we don't have any specific cases today.

And as relates to the overall competitive impact of this type of news, we still feel very good with the many-to-many model. It's very healthy. It's not the first time these types of things have occurred, where there's policies or attempts to take away our -- to attract hosts to other platforms.

Tracy Hu: Thank you.

Operator:

John Kim, West Mountain Capital.

John Kim: You guys touched on the issue of stickiness. And it seems like your many-to-many model is particularly social and interactive. Do you have any statistics, either quantitative or qualitative, about the customer lifecycle? Do customers stick around here longer, just because they're socializing with their friends?

And I have one other question.

Mike Fu: [Foreign Language]

Paul Keung: Thank you for the question; it's a very good question.

We have experienced historically very long lifecycles; even today and remain our customers. So we have many -- a meaningful percentage of our customers have five and six years of history with our company, meaning that they were customers from the very beginning. And so we've not seen them leave our platform.

What you also find is a large majority user may invest in things like a microphone or speakers in their home or on their computer and that it's a long term investment for them for user experience.

And more importantly, these users stay with us because there is no alternative platform, no other options, to provide this type of many-many at-home experience, particularly as relates to music-entertainment category.

John Kim: Got you. Okay, thank you, that's helpful.

Also -- sorry, I'm new this business -- but how big is the market, I mean, for the social video? Have you guys kind of sized the market?

And then, I know you talked about promotions in the near term. But are there key catalysts for growth in the long term, within the coming year, say?

Thanks.

Paul Keung: One second. Let me just translate the question.

All right. Let me first highlight to you first -- in our IPO documentation, we do provide research from iResearch, which talks about the size of market, and they attempt to combine the one-to-many and the many-to-many market together in addressing the size of market. First of all, you'll notice three interesting trends in the data. One is that the (overall) market's is in the very early stages. Only recently, that is, over the last year or two, have you seen it crossed over the 100 million to 200 million user base, thanks in large part to the explosion of the one-to-many market.

Second thing you also find is that growth rate does have acceleration, in terms of adding users and growth in the later years in terms of size nominally. And that's because we -- one key challenge, as you asked about, is 4G and LTE, and a number of new technologies that could improve the speed of the product -- not just in terms of bandwidth but also the delivery. Because you're dealing, in our case, multi-casting, if it's a one-way video there, you can have a three- or four-second delay. As a user, you won't notice. But in terms of multiscreen and the many-many interaction, we cannot afford more than a second delay. It has to be reliable. So these are -- that's a major key challenge.

And also relates to the size-of-market question you had -- we currently, as Richard mentioned earlier, we have 600,000 users on-air. And that's almost 20 times, as Richard mentioned, that of the number of hosts on-air. And that's a figure that is more segmented platform, one-to-many or many-many, in our competitive landscape.

And so these figure as a benchmark for size of market just for mainland China; you can get an idea of how big the market can be. So one metric that people look at is that a single-digit percentage of users actually ever gone on -- actually watch video on a live format. In most cases, you're talking to people you know, let's say, on a one-to-one basis. An even small percentage of that -- let's say, one in 10 -- actually are willing do that with strangers.

And so if you break that down, you can kind of see that, as that graph trend changes, there's tremendous potential for this type of market as relates to video.

Mike Fu: [Foreign Language]

Paul Keung: And Mike added there that actually, it's very important to note that this is a product not just for young users; there's a very wide audience group. And there's a 30-, 40-, and 50-year-old age group. And we also find that the older the age group, there's a tremendous need.

In fact, you look at Sina Show numbers, I'll add here, is a higher-paying ratio than that of the younger age group. It also -- the product addresses not only the pure user needs, but there's an aging population. And so, between the fact that it attracts a wide audience -- long lifecycles, as you mentioned -- the aging population also is a potential positive indicator for the outlook for our businesses.

John Kim: That's great. That's really helpful. Thanks very much.

Operator:

Jialong Shi, Credit Suisse.

Jialong Shi: I have one question. I just wonder what your competitive edge is to do the mobile games? If I understand correctly, the majority of you are online music users still on the PC side. So cross-selling between your online music business and the mobile game business seems quite difficult. Just wonder if my understanding is correct.

And also, I think management mentioned earlier mobile games may not contribute a meaningful revenue until 2015. And I just wonder if management can share any quantitative targets for this mobile game contribution next year.

Thank you.

Paul Keung: One second while I translate the question.

Mike Fu: [Foreign Language]

Paul Keung: Mike mentioned you are correct in the games business. And as you mentioned, within mobile, there's lots of competition; it's a very competitive environment. But that being said, we are leveraging essentially our ecosystem, our hosts, who have a very established social network.

We have a very large PC user base. But we do believe that user base will -- in terms of entertainment, will move to mobile. And we are in a good position to move people from PC to mobile, as they start to use mobile and play mobile games.

Currently, our first test case study is "Three Kingdoms." We have one out in market. But what Mike was referring to is a large part of our success is really based on ability to leverage our ecosystem. Whereas relates to the gamers on iOS platform, we believe a large percentage of those gamers actually were promoted and brought in through leveraging our ecosystem and hosts.

Over the long term, as we launch six to eight games, we're going to be able to scale this community to provide some sort of benefits of scale, such that when you build that community, you have more games. The net result of that is having offering games, the video features, and our ecosystem (collectively). This is a platform for long-term growth and sustainability.

Jialong Shi: Thank you.

Operator:

Tian Hou, T.H. Capital.

Tian Hou: I have two questions. One is related to the game broadcasting. And in the game industry, there is a lifecycle of a game. And right now, you have some really popular game are broadcasting. And so I wonder if the game broadcasting show also has such kind of a lifecycle. If so, how do you handle such lifecycle issue? That's question number one.

Question number two is -- not long ago, we were having some problem related to indecent content. And I guess a lot of internet entertainment sites for vendors got some kind of penalties and license suspensions. And so I wonder how Tian Ge prevent that from happening.

That's two questions.

Paul Keung: One second, let me translate the question.

Tian Hou: Sure.

Mike Fu: [Foreign Language]

Paul Keung: As relates to game broadcasting and its relationship to lifecycle of games -- I think, first, let me just clarify that we didn't use the word "game broadcasting." And our focus isn't necessarily game broadcasting. If you look at our core strength in our many-to-many platform, it's the socialization in the ecosystem. And as we leverage an ecosystem where a lot of interaction is between users and between networks of users within different rooms and different communities.

And so, the purpose of having the video feature as relates to the success of our live video embedded hosted gaming, is a lot more that has to do with socialization extending lifecycles of those games. And if you have a portfolio of live social video hosted games, what it does is it builds a stronger bond between users and between our ecosystem hosts and the users, such that the lifecycle I was referring to is not relevant as relates to lifecycle of a game broadcasting, as relates to the -- let's say, the twitch and other type of models out there.

And Richard will answer your second question.

Richard Mai: Yes. Relating to the content monitoring and content control, at the day one, when we set up our company, we are -- this is most -- our first priority for the Company to ensure that all contents, our platforms, are clean, and they comply with the laws.

So we have set up the system with the automatic monitoring system, and also there's monitoring teams which will watch our platform seven days each week and 24 hours every day.

So up to now, we have not been criticized or punished by any authority. And we are always updating our internal monitor system to ensure the full compliance with the government.

So going forward, we don't see any significant risk from this aspect. Thank you.

Tian Hou: Thank you. That's all my questions.

Paul Keung: Thank you, Tian.

Operator:

Gregory Zhao, Barclays.

Gregory Zhao: My question is about the our selling marketing expenses and user acquisition expenses. In the past quarter, what is the average user acquisition costs of each user? And do you think we are competing with YY to grab some users from a peer website, a peer platform? This is my first question.

Paul Keung: Okay. Regarding your question on sales and marketing expenses and user acquisition costs -- so you can see, we provide, as I mentioned earlier, promotion after our expenses. Virtually all that is online. And you can assume a large percentage of that is also related to customer acquisition.

As relates to -- you can try analyze on the active user base and from a registered user base. We provided data in 2011, 2012 and 2013 in the prospectus. You can see that we spent roughly, on average, between RMB1 and RMB2 per registered user. And you've seen a continued improvement in our conversion from monthly user, active user. So that would give you an idea of some of the metrics of looking at it. And know, if you do the math, you'll see there has been no major change in user acquisition expenses.

As relates to competition (from), YY for user acquisition, I would say, I think there's a lot of overlap of competition to find users trying to seek live social video entertainment. But then again, the difference is ultimately in the product and also, as you can see, considerable differences in customer lifecycle as well. So that also needs to be addressed when you think about customer acquisition costs.

Gregory Zhao: Thank you.

My second question is also about our selling marketing. I think we already mentioned where we use some advertising on Baidu, on Google; also use some advertising union to promote our branding and acquire some users. So if you could mention -- just share some color about the efficiency of such kind of advertising channels. Thank you.

Paul Keung: One second.

Richard Mai: So I would say we use the search, like Baidu and Qihoo. But we don't use Google at current time, because we are mainly focus on domestic users.

And for the search unions, we use -- currently, we see that we have very good relationship with search unions. And we keep our long-term relationship with them, and help them to also work together to find the active traffics.

So currently, we don't see any downtrend of our efficiency, up to now.

Paul Keung: Okay. So let me just add one comment. So we remain very efficient, specifically to Baidu relationship and our SEO/ SEM strategy has seen no change, is what Richard mentioned.

And the second thing, as relates to your question on the search inefficiency -- we highlight that we have a joint venture with Qihoo, as you can see. And important thing is highlighted in the offering is that is that is focusing on the one-to-many business.

Qihoo, as you know, is very strong in traffic acquisition, a very strong browser. And they bring a lot of value in that joint venture. And so that may address specifically the traffic acquisition cost relates to the one-to-many business. And that JV is important effort in the one-to-many business, which is different than that of our many-to-many business.

Gregory Zhao Thank you very much. That was helpful.

Paul Keung: Thank you.

And operator, I appreciate all the questions tonight. We're very flattered. We have more questions. But we just -- we're way over time here. But feel free to call us after if you have any questions. And we look forward to speaking to you in future quarters.

Thank you, everyone, for participation.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.