

**Operator:**

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Hello, everyone. Welcome to Tian Ge Interactive Holdings Limited's Third Quarter 2014 results 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:**

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Hi everyone. And thank you for joining Tian Ge Interactive Holdings Limited's Third 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, and CEO; Mr. Richard Mai, COO; Mr. Paul Keung, CFO. Mike will speak in Chinese, and we will translate his comments into English; while Richard and Paul will present in English. Shortly after the call, we will provide a transcript in English on our website.

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

**Mike Fu:**

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We are happy to share our 2014 third quarter earnings results.

Before that, I would like to share with you the exciting news, Tian Ge Interactive Holdings will officially be included in MSCI China Small Cap Index starting tomorrow after market close.

To us, it is encouraging as it demonstrates our performance is gaining increased recognition, and Tian Ge is a capital markets representative for emerging companies in the technology sector.

In the third quarter of 2014, we continued to make significant progress in expanding and developing our overall business. Thanks to the fast development of our live social video platform and mobile games, we achieved robust financial results for the third quarter of 2014.

- Tian Ge's total revenues for the third quarter increased 24% YoY to RMB 173.1 million. In spite of VAT effect, our revenues actually recorded an increase of 31.4% on an apple to apples comparison.
- Our adjusted net profit increased by 44.4% to RMB71.6 million in Q3. Adjusted net margin increased to 41.4% from 35.5% in the corresponding period of 2013.
- During the reviewing period, we are very pleased with our overall performance of our nine online communities. Monthly active users increased 23.1% YoY to 14.4 million. Monthly paying users increased by 30.9% YoY.
- We remain satisfactory with our ability to convert registered users to active users and active users to paying users. In addition, total user spending and transactions volume across our platforms continues to grow at a rate faster than our net reported revenues.
- We are also excited about the growth of mobile users and engagement across our platform. Our mobile MAU has reached over 1million users for the first time, to 1.43 million users, more than doubling the total from the year ago period.
- Our mobile MAU in the third quarter of 2014 increased to 10.0% from 7.4% in the previous quarter. We expect this trend to grow over time.

Overall, our Q3 performance gives us great confidence in our ability to sustain healthy revenue, profit and free cash flow growth.

We remained focused on several key initiatives to drive our user experience and growth.

First, we continue to improve our mobile user experience and we expect mobile user growth and mobile monetization to increase at a significant pace.

Second, we are applying our technology capabilities and integrating our large ecosystem of users to drive growth of our gaming business, and develop our innovative live social video embedded gaming products.

For example, our two games, Three Kingdoms and JS Beauty, have demonstrated lower customer acquisition costs, higher game monetization, and potentially a longer life cycle when integrated with our live social video community and functions.

Third, we will leverage partnerships with key partners to reduce our risk and to deliver superior financial returns.

To date, we have received strong interest for new vertical cooperation opportunities from our existing strategic IPO cornerstone investors, which include companies with experience in gaming, medical, education and smart TV sectors.

We are very excited about the future of Tian Ge. We continue to benefit from the rise of Internet and mobile Internet penetration, and from user migration from traditional social networking services to live social video.

These favorable factors and market trends will provide a strong foundation for the company to generate even better results for our shareholders.

At this point, let me hand over the call to our CFO Paul. He will discuss in more details our financial results.

**Paul Keung:**

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Thanks Mike and hello everyone.

We are very happy to have this opportunity today to catch up with our investors and announce our Q3 results.

Let me first go through our financial results for Q3, then I will hand over to Richard to share more details about our most recent operating initiatives.

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 refer herein are year-over-year comparisons.

**Total revenues** for the Q3 registered 23.9% YoY growth to RMB173.1million, driven by continued solid growth of our Live Social Video Platform, and from growth of our first mobile game "Three Kingdoms". As Mike mentioned, revenue growth was actually 30.9% year over year if we adjust our figures to exclude the impact of a new VAT tax that

reduces our reported revenues by approximately 6%. The adjustment is only an accounting adjustment, and has no impact on our profitability.

- **Revenues from Live Social Video Platform** increased by 16.8% YoY to RMB161.5 million from RMB138.3 million and the actual increase rate should have reached 23.8% excluding the VAT effect as our revenue are now recorded as net off 6% VAT tax after 1 July 2014.
- **Key drivers supporting our 23.8% growth in live social video revenues are 23.1% and 30.9% increase, respectively, of our MAU and MPU. ARPU declined 10.6% in the third quarter, largely the result of addition of new mobile paying users at lower ARPU levels.**
- **I want to remind investors that our reported revenues are net of revenue share distributed to our ecosystem partners. We share revenues generated by our partners who operate many to many rooms across our platforms, and receive typically between 30% and 40% of the user spending and gross community revenues.**
- **Revenues from Games and Others** represent primarily our first mobile game Three Kingdoms which was launched in the fourth quarter of 2013. Revenue declined modestly quarter over quarter, as we recently reduced monetization in advance of new product updates in the fourth quarter.

**Cost of revenues** experienced a slight increase of 8.7% to RMB20.0 million in Q3 as compared with the corresponding period in 2013. The slight increase was primarily due to the higher costs related to the launch and operation of our mobile game “Three Kingdoms” and offset by the saving of business tax and surcharges after the VAT reform as mentioned in the above section.

**Gross profit** increased by 26.2% to RMB153.1 million. **Gross margin** increased to 88.5% from 86.8% in the corresponding period of 2013. The increase in gross margin largely reflects the impact of new VAT tax policy that effectively reduces both our reported net revenues and cost of revenues.

- **Selling and Marketing Expenses** increased by 56.5% to RMB61.2 million for the third quarter of 2014 from RMB39.1 million in the corresponding period in 2013, primarily due to the increase of promotion and advertising expenses

applied to (a) our existing Live Social Video Platforms; (b) our newly launched mobile games and beta-testing soft launched live social video-embedded games, and (c) an increase in share-based compensation.

- **Administrative Expenses** increased to RMB36.8million for the third quarter of 2014 from RMB12.3 million in the corresponding period in 2013, primarily due to an increase in share-based compensation of RMB17.0 million and listing expenses related to our IPO of RMB8.2 million. The increase is partially offset by the decrease of business tax and related surcharges of RMB3.8 million benefiting from the VAT reform effective from June 1, 2014.
- **R&D expenses** increased by 38.6% YoY to RMB23.0 million in Q3, primarily due to the increase in employee cost and new research and development investment in mobile games.

**Operating profit** on a recurring cash basis, which excludes share based compensation expenses and listing expense increased 31.6% year over year. Our IPO was July 9<sup>th</sup>, 2014 so a portion of our IPO listing expenses totaling 8.2 million were recorded in the third quarter. In addition, shared based compensation was approximately RMB19.5million in the third quarter, an increase from the second quarter related to pre-IPO restricted shares issued on May 22, 2014, and already disclosed in our IPO prospectus.

More than 400 of our approximately\_880\_employees as of September 30, 2014 hold options or restricted shares in our Company.

Our **adjusted net profit** increased by 44.4% to RMB71.6 million in Q3. **Adjusted net margin** increased to 41.4% from 35.5% in the corresponding period of 2013.

As of 30 September 2014, we had **cash, cash equivalents**, term deposits with initial terms over three months, and RMB-denominated principal-protected structured deposit in the aggregate amount of RMB1.878 billion.

The company has no debt and all bank borrowings had been repaid before 30 September 2014.

As of 30 September 2014, our **capital expenditures** were approximately RMB24.4 million.

Capital expenditures including approximately RMB7 million related to the purchase of our new office space located in Shanghai, approximately RMB9 million related to the pre-payment of new office space located in Beijing, and RMB8.5 million related to other fixed assets including servers and office equipment.

We completed the purchase of our office space in Shanghai in August 2014, and the full amounts are transferred to our fixed assets in August 2014 with total amount of approximately RMB15 million. Our office space purchase in Beijing has approximately another RMB40 million outstanding to be capitalized in the coming quarters.

Excluding our acquisitions of our office space in Hangzhou, Beijing and Shanghai, our recurring capital expenditures is approximately RMB20-30million per year.

We remind investors that our reported revenues going forward will continue to be net of 6% VAT tax due to a policy change in June 2014.

As a result, year over year growth of our reported net revenues will be reduced. However, the VAT tax policy will not impact profitability, and the net effect is likely higher margins.

As a result, our top line growth and reported revenues may be distorted and not necessarily the best indicator of our growth.

In closing, we are pleased with our financial results and underlying business trends. We expect healthy user growth and strong increase in gross user revenues on our platform. In 2015, we will remain focused on delivering double digit growth in net income and free cash flow.

At this point, let me hand over the call to our COO, Richard, who will discuss in more details of our recent development and future strategies.

**Richard Mai:**

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Thanks Paul and hello everyone.

During the reviewing period, we spared no efforts in boosting our overall business and in innovating and completing our live social video platforms with more different and exciting features and functions for our users.

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Net revenues per room and per users on air both increased quarter-on-quarter and year-on-year, suggesting healthy monetization by our ecosystem partners in our operating rooms across our platform.

In addition, as Mike mentioned, we experienced a strong year-on-year and quarter-on-quarter increase in gross platform revenues across our nine communities.

In September 2014, we launched an open beta version of our new live social video embedded RPG game, JS Beauty. Early results are encouraging as we are able to leverage our established host ecosystem and resources to attract new users.

Our innovative socialization features could potentially increase monetization, user engagement and user life cycle.

In addition, we initiated the soft launch of “Power Pets”, our 2nd and newest RPG style mobile game licensed from a third party developer. We expect to release an additional 6 to 8 self-developed and third-party developed mobile games through 2015, several of which could enable interactive video functionality.

Another exciting initiative which continues to be our focus is our O2O offering. We have leveraged our live social video know-how and technological capabilities to offer an O2O experience.

It is to allow real-time interaction between people located at physical entertainment venues such as karaoke establishments to accessing our live social video platform through smart-TVs.

We have now opened our third facility in Hangzhou and we are continuously testing our O2O Karaoke software and platform across three locations in Hangzhou. Because early results are positive, we are evaluating opportunities to possibly expand our testing with additional partners with regional or national scale.

We are working to leverage the successful position we have fortified in the music and entertainment category to further expand and diversify into new content genres, such as finance, health and lifestyle, and e-commerce for bringing fruitful returns to our shareholders and investors.

Looking forward, our mobile strategy aims to take full advantage of the technological and infrastructure improvements in China, including the ongoing recent rollout of 4G services, which will support high-quality video streams on mobile devices.

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

Thank you.

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**[QUESTIONS AND ANSWER SECTION]**

**Operator:** Mike Chen, UBS.

**Mike Chen:** Hello. Hi. Thank you for taking my call and congratulations for the great results. I have one--two questions. First of all is I noticed that you narrowed your growth in number of rooms from 20% last quarter to 11% this quarter. So can you give us more reason about this? Also, any color on the coming quarter on the growth of the Live Social Video would be appreciated. The second question is regarding your mobile games. I noticed the mobile game revenue this quarter actually declined from last quarter. So any timeline or pipeline on the mobile game will be appreciated for the next quarter. Thank you.

**Paul Keung:** Okay. One second, Mike.

**Mike Fu:** (Chinese)

**Paul Keung:** Yes. So quickly, Mike's response to your question as to why is the growth in rooms slowing down in the third quarter versus the prior quarter. The main reason is that as the rooms mature, particularly as the rooms move to larger scale rooms, we will slow the rooms growth down to improve the room activity, as well as improve room monetization in those rooms. And so, over the course of time you will see the room growth can increase and decrease as long as we sustain a healthy growth in both the user spending across our platform and maintain relative attractive returns on our investment.

**Richard Mai:** Yes. For the game launch schedule, we have already launched some games, a the PC-based RPG game and another mobile game in the third quarter. Fourth quarter we expect to launch at least an additional one mobile game. Looking forward in the next one year, we expect to launch another six to eight mobile games in 2015.

**Paul Keung:** Okay. And regarding the question about the fourth quarter, we don't provide guidance as it is a practice here in Hong Kong. However, I can just say that



when you look at the underlying trends of our business you'll still see relatively healthy growth year-on-year--double-digit healthy growth. There will be impact of VAT on the revenue--reported revenue. So therefore, reported revenues will be closer--will need to be--will be impacted by net of 6% for VAT. And lastly, for the full year you'll probably see a growth rate that is comparable to the growth this year that you saw on a year-over-year basis in the third quarter after netting out the VAT.

**Mike Chen:** Okay, thank you.

**Operator:** Cynthia Meng, Jefferies.

**Cynthia Meng:** Thank you, Management. Can you give us some updated information on the--on your new businesses, the medical and offline KTV, the stage of cooperation with Kang Jian. We note that your medical business will be limited in Hong Kong as far as to now expand to the mainland. Just wonder why Hong Kong is the first one. I have another follow-up question later.

**Richard Mai:** (Chinese)

**Paul Keung:** Regarding the question about Kang Jian, one of our cornerstone investors, we remain in active discussions forming the stages to develop a partnership. Both sides are very excited about the opportunity and we see a lot of opportunity in this industry. We're also working with the major content providers and operators who--in health clinics in--throughout China. And this will be predecessor--we'll have to establish ourselves in mainland China before expanding into Hong Kong.

**Cynthia Meng:** Thank you. I have a follow-up question on the mobile game. Management indicated that revenue generated by mobile game could account to more than 10% of total revenue in the second half. Third quarter we have 6.7%. Can we have some more color on the 4Q? Just now, Management mentioned there is one game being launched. So the fourth quarter is expected to be quite strong. What kind of game is that? And also, the cooperation with Tencent to publish one mobile game, just wondering whether--what is the nature of the cooperation? And any details on who is going to be developer and operating--and revenue sharing agreement? Thank you.

**Richard Mai:** (Chinese)

**Paul Keung:** Okay. Regarding the question about the game pipeline and game revenues, yes, you did see a modest decline in the third quarter over second quarter in our revenues. But this really more reflects continued testing and preparation for new

game launches. In particular--I'll add here--in the press release you'll notice--in Richard's comments you'll notice that we mentioned that JS Beauty would launch in late September and the new game, Power Pets, was also--will be launched in the fourth quarter. And so, a lot of preparation was made for these games, which may have resulted in what you're--the numbers that you're seeing.

As relates to the question with cooperation of Tencent and other distribution partners (inaudible), our Company's answer is essentially, yes, we are exploring partnerships in distribution with various partners. Not just Tencent, but also Ying Yong Bao, 360, Xiao Mi, and others.

**Cynthia Meng:** Thank you.

**Operator:** Natalie Wu, CICC.

Natalie Wu: Hi, Management. Thanks for taking my question. As we know that the landscape of Live Social video platform becomes more and more competitive recently, so just wondering have you sensed any pressure to raise revenue sharing ratios to your broadcasters? Thanks.

**Mike Fu:** (Chinese)

**Paul Keung:** Okay. Regarding questions about the competitive landscape and will it impact revenue shares, many-to-many is our core product and focus. And the intense competition you're seeing in the landscape is mostly related to the one-to-many market. And so, therefore, we're not seeing major impact to our business. I'll add one more comment. If you look at the--what we stated in our comments and in our prospectus, we report revenues on a net revenue basis - that's net after a revenue share to our partners.

That being said, revenue share increases may not necessarily reflect any changes in competitive landscape. Often times it may adjust those figures really based on performance and the ability--and to the extent you want to provide a certain increase in investments in new verticals or in new rooms and businesses. That may have a more meaningful impact on your business than let's say just related to competition.

**Natalie Wu:** Got it. Thanks.

**Operator:** Hillman Chan, Macquarie.

**Hillman Chan:** Thanks, Management, for taking my question. I have a question regarding the user spending. So as the top 3% contributed to 70% of revenue in 2013, are we seeing changes in this ratio? So how are we seeing the growth of the top spenders compared to the lowest spending user segment? And just on top of that, right, are we stepping up any efforts in the marketing and virtual item strategy to target more, particularly the high spending user? And I have a follow-up question on that. Thank you.

**Paul Keung:** Okay. We just discussed. I'll give you a very brief answer. So overall--you mentioned user spending, the top 3% was--you suggested 70%. Actually, the math is closer to 60%, not 70% in 2013, if you were to do the math on the numbers you're referring to in the prospectus. Second here, your question was the top--trends in spending for the top and lower tier. Overall, we're seeing quite healthy spending patterns in our user base. The reality is our business you have to understand is really more about opening rooms.

A lot of our monetization is built on activities around our customers. It's important for our rooms and these customers to have very long life cycles. We have many customers that have been around since the very beginning - three, four, five, six-year life span customers on our platform. So therefore, it is not necessarily a competitive environment that you may have seen on one to many products where there tends to be a competitive force driving up ARPU's with the high end customers.

And then, lastly, our question was are we doing any monetization techniques to go after high end customers. Again, our user bases--our user base and our positioning is really about the entertainment related to the rooms. And therefore, we're not really necessarily looking at--going after the particularly high end customers as you would suggest when looking at the one to many business.

**Hillman Chan:** Okay. Yes. Another question would be on the--I'm trying to understand sort of the distinction between many to many versus in the one to many model. So is it possible for you to talk a little bit about this sort of breakdown on the revenue, between user to host and also among user to user. So--and how is the trend like moving in the past few quarter, if that's possible?

**Richard Mai:** (Chinese)

**Paul Keung:** I'll translate briefly. The revenues that you see on our platform historically don't disclose, but it is very clear and we've discussed in the past that sometimes close to half--approximately half our revenues could be generated from a transaction between

users to host. But also, a very large percentage, and at times as much as half, is actually between transactions between users and users. And then, going forward that's something we'll disclose or necessarily focus on from an operating standpoint.

**Hillman Chan:** Okay, thank you. And Jiong have one more follow-up.

(Chinese)

I was just asking for the recent pretty successful dating event whether or not Tian Ge will pursue something similar, some apps similar to Momo, which is a dating app--a popular dating app. Thanks.

**Mike Fu:** (Chinese)

**Paul Keung:** Okay. Jiong, thanks for the question. Regarding questions about the mobile app and stranger apps, internally we are--we have invested in R&D in developing a similar set of apps and functionalities in our mobile front. But again, the functionality and the positioning is more aligned with our Live Social Video business. Meanwhile, the PC-front for the online dating, as you mentioned, yes, we actually have a pretty--we have cooperation. We work with the Shiji Jiayuan, which is the largest online dating company in mainland China. And they--and currently have four to five day programs a week. It's using Live Social Video. And what it does, it basically leverages very famous TV shows on online dating and has brought it in online and Live Social real time venue.

**Jiong Shao:** Okay. (Chinese) I was just following up on the current monetization or the potential monetization for the online dating events. Thank you.

**Mike Fu:** (Chinese)

**Paul Keung:** Thank you for your question. Regarding the progress and monetization formula for online dating events, it's only been a few--I'm adding a couple things here. But it's only been a few weeks. We have about 10,000 users with no promotion, only word of mouth. At this point, we're letting/ allowing the user base to grow organically. We're basically studying, observing the user behavior. And this--as we do, this allows us to develop a strategy for monetization. It could range anywhere from games to mobile and to other fronts in Live Social Video that we will continue to observe and study.

**Jiong Shao:** Okay. (Chinese)

**Operator:** Gregory Zhao of Barclays. Please go ahead.

**Gregory Zhao:** Good morning and thanks for taking my question. My first question is about the direct sales model and the agency model. I think the current entertainment revenue around around 10% to 20% of the Company contributed by a direct sales model. I think the Company may earn more from the direct sales model, but maybe the agents are not that happy as the flow of money from that model. So in longer term, how will we balance the revenue from direct sales model and the agency business? And I have another two follow-up questions. Thanks.

**Richard Mai:** Yes, thank you for the question. (Chinese)

**Paul Keung:** Thank you for your question. Regarding the question about direct sales, indirect sales, the Company has deep experience and understanding of how to balance this model. A lot of our first time customers, when they enter our platform, what we do is we have the ability to really understand their needs. We track user behaviors. And over time, our objective is to basically convert them into a customer of our agents and of the rooms run by distributors and agencies. And what this does, it can make the customer have a much longer life cycle and a much more stable user pattern.

**Gregory Zhao:** Thank you. And my second question is about our PC RPG games. I think you have already launched some social function inside the games. So far, how is the feedback from our users? And what is the monetization effect in the longer term? Do you think it will significantly drive our monetization inside the PC game? And I have another follow-up question. Thank you.

**Mike Fu:** (Chinese)

**Paul Keung:** Thank you for your question. The game you are referring to on the PC RPG front is a game called JS Beauty, which was launched in late September of this quarter--of the third quarter. It's an individual PC game that is separate from our Live Social Video business. It is marketed through the game committee and it's separate, again, from our Live Social Video committee. The revenue model and the trends we're seeing so far is just that it has a very independent user base, has real (inaudible) and again has the ability to be successful on--as a traditional RPG game. It does not require dependency overlapped with our existing business.

**Gregory Zhao:** Thank you. And my last question is a follow-up on our (inaudible) data and I think (inaudible) will launch a new version of their mobile app next month and

maybe they will add more social and online chatting function thing into the app. So I wanted to know do we have any cooperation on that front in (inaudible) we have to put out our technology into the apps or have they cut off cooperation? And in addition, I think (inaudible) has a solid data base off of some serious online dating users. So have we shared some of the data we've (inaudible)? That's all for my question. Thanks.

**Mike Fu:** (Chinese)

**Paul Keung:** I'll answer the second question regarding the customer database that (inaudible) has of their customers. We also have a very solid database for our customers and we are pretty much focused on driving business to our customer database. We have not discussed with (inaudible) any cooperation regarding their database of customers. That being said, just again to reiterate, our partnership right now with (inaudible) is really focused on developing an online dating program much like what you are seeing in the market today with some of the other competitors--one of the competitors. But then again, ours is a bit more unique, too, and hope to make it much more fun and more successful.

And then, quickly to translate Mike's answer regarding mobile app business, our Company is also developing a series of mobile apps. You--and also very similar, as you mentioned, to the positioning like that of (inaudible) and other social related apps, it's going to be integrated more so with our ecosystem and our business. And there is currently no major plans to cooperate with them on the mobile app front.

**Gregory Zhao:** Thanks very much. Very helpful.

**Operator:** Nelson Lee, SBI.

**Nelson Lee:** Good morning, Mike, Richard, and Paul. I have three questions to ask. My first question is among the 335,000 MPU in September, how many of them are mobile users? And my second question is as we can see the ARPU decreased from 180 last year to 161 this year due to increase in mobile users, which commands much less ARPU, I want to know that if the mobile users account for large portion of our total monthly paying users in the future? Will our ARPU keep its decreasing trend? And my final question is as we can see the Company is expanding its O2O business, I wanted to know how the Company is going to share profit with the karaoke operator. And what kind of strategy is the Company going to use to expand its O2O business? Thank you.

**Paul Keung:** I'll briefly answer the first two regarding your questions about the paying user and ARPU trends and Richard will answer the question regarding O2O karaoke.



Regarding the 335,000 monthly paying users, what percentage mobile, we don't disclose that figure. And again, keep in mind that's a monthly number, not a quarterly number or an annual number. As relates to the quarterly number, we did disclose that 10% of our active users are mobile customers. However, a percentage less than 10% is actually paying today. It's a very small number. So the single-digit number. Regarding the ARPU for the mobile customers, you are correct. It is much lower than that of the PC customer today. It's a fraction of the PC paying customer ARPU, and yes it does bring the ARPU down. In fact, the ARPU was down about 10% in the third quarter on a year-over-year basis.

Now because the comparisons begin in the fourth quarter of 2013 for the first time, the ARPU for mobile will be lower, more dramatically impacted this year, 2014, because this is the first year that we have mobile customers coming online. But we're already seeing trends from mobile customers that started paying about a year ago. Their ARPU does improve. So long term, we believe the paying customers for mobile will start to converge and move closer to PC as the user expansion changes over time.

Also, the long term vision of the Company, something that Mike and Rich talked about in recent--in a recent call and on the IPO, is that as we start to see a cross platform experience materialize, regardless of whether it's PC or smart screens, O2O, or to mobile, we believe that the move to a cross media platform type of experience, the ARPU for the overall business could actually go higher and it becomes agnostic, indifferent, to whether it's mobile or PC.

**Richard Mai:** (Chinese)

**Paul Keung:** Regarding your question about the O2O karaoke, its monetization strategy, currently we have three stores in testing stages. We are still building a track record and because they're only in testing, obviously there is no impact to revenues today. As it relates to the future monetization models, it's important to note that we're developing a software and user experience. And so, as it relates to revenues generated within the store or at that particular location, of course, there will be a revenue share related to the store location. But also, over time as customers start using the interactive experience and moving possibly some of the functionality it is purely online. And to the extent those monetization are online interactions, we may--we will also share with our partners. But we'll probably likely generate higher revenue share because that's sort of the incremental business that we're bringing to the table with those partners.

**Nelson Lee:** Thank you.



**Operator:** (Operator Instructions) Rocky Zhang, CCBI.

**Rocky Zhang:** Hi, Mike. Hi, Paul. Thanks for taking my question. I have one question regarding your game strategy. From my own understanding, it is easier to have Live Video functioning better on PC games rather than mobile games because it has a bigger screen. So I am wondering what is your strategy on PC games. Will we launch more PC games in the coming year? And the second question is, what is our R&D force regarding our self-developed mobile games? How many--what is the percentage of self-developed mobile games? Thank you.

**Richard Mai:** (Chinese)

**Paul Keung:** Thanks for your question, Rocky. Regarding your question about the PC versus mobile game strategy, currently JS Beauty, which we recently had an open data in the end of September, it is our only PC game currently. However, the platform it operates on is a cross platform that will be mobile and PC. In our view, given our experience and know-how in Live Social Video, we are confident that in our positioning and that real-time Live Social Video interaction is something that will work and will be successful on the mobile phone over the long term.

Your second question regarding the R&D related to our game pipeline, we have a number of partners developing games that we have essentially committed to saying if we reach certain milestones, and based on our milestones, we will bring them online through the strategy that we've outlined for mobile games. However, in certain cases it's possible some of these games did not reach milestones that we are pleased with or at least reached milestones where we're ready to go to open a commercialization. And so, for those games it may take a little bit longer.

As it relates to self-development, we only have a few currently in-house, including JS Beauty is one of them. So most of the pipeline is still third-party because our expertise is the Live Social Video interaction and the ability to leverage our ecosystem.

**Rocky Zhang:** Okay, thank you.

**Operator:** Sam Gu, First Shanghai Securities.

**Sam Gu:** Hi. Thank you for taking my question. I just have a very quick one. Looking at the Q o-Q data, I see some slowdown in terms of the growth rate of our revenues, as well as the MAU. So I wonder if there is any seasonality in terms of MAU in particular? That's my first question. And then, I was--how do we see the MAU growth rate in terms

of--in the longer term prospectus, because I believe MAU is a very important growth driver for our revenue. But in future are we more focused on the MAU growth, or are we sort of shifting our attention to the monetizing that exists in MAU? Thanks. That's my question.

**Mike Fu:** (Chinese)

**Paul Keung:** Thank you for your question. Regarding the question about growth of MAU and its impact as it relates to PC and mobile, first of all, the growth for PC across the PC users in the mainland is obviously already slowing or actually leveling off for mainland China. However, that being said, we are still growing our PC user base at a slowing rate--at a slower rate than mobile and will probably continue to slow over the long term. That being said, mobile is very fast, as you can see from the figures that we've disclosed. And we expect mobile to be a major driver of MAU growth.

Regarding the question on seasonality, I encourage you--the seasonality isn't based on time of year, but really more the timing of when we launch mobile products and updates. So for example, we did a number of mobile enhancements last year and for this year, which resulted in the very fast growth in mobile. And to the extent you slow that down for another set of updates, you may have a quarter or two where growth on the mobile front may slow relative to the prior period. But over the long term, the mobile trend is very strong and that does impact the MAU numbers that you're looking at.

**Sam Gu:** Okay, thanks. So just one very quick follow-up question. So regarding the key drivers for our revenue growth, so you believe it is now to look at the monetizing the existing MAU rather than to expect the MAU will experience a very dramatic growth?

**Paul Keung:** Regarding your question for key drivers for revenue growth, we disclose MAU, MPU. Those are key drivers of core growth of our business, particularly, growth of users and paying users. Now, mind you, our ARPU is calculated based on a net revenue basis, so not always the best indicator. Although a fine indicator short term, over the long term not the best indicator on ARPU. But those give you an idea of trends at least today relative between PC and mobile ARPUs.

And as it relate to other key revenue driver metrics, you can look at revenues, such as revenues per room or revenues per users on air. These are also the metrics that are also very helpful. So in certain periods you may see that slow down, but then you see increase in user growth. In other periods, you may see user growth slow down, but an increase in revenues per room and revenues per users on air.

**Sam Gu:** Okay. Understood. Thanks.

**Operator:** This concludes our question and answer session. I'd like to turn the conference back over to Kenneth Ke for any closing remarks.

**Kenneth Ke:** Okay. Thank you, everyone, for taking the time. And this closes the third quarter earnings call for 2014. Thank you.

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