

**CMCM - Cheetah Mobile, Incorporated**  
**Q3 2014 Earnings Call**  
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Officers

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Alex Yao, JPMorgan  
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Jeff Hao, China Merchants Securities  
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**Presentation**

**Operator:** Good day, everyone, and welcome to Cheetah Mobile's third quarter 2014 earnings conference call. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference call. Please note this event is being recorded.

At this point, I would like to turn the call back to Helen Zhu, Cheetah Mobile's Investor Relations Director. Thank you.

**Helen Zhu:** Thank you, Operator. Welcome to Cheetah Mobile's third quarter 2014 earnings conference call. With us today are Mr. Sheng Fu, CEO, and Mr. Andy Yeung, CFO. Following management's prepared 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 make forward-looking statements.

At this time, I would now like to turn the conference over to our CEO, Mr. Sheng Fu.

**Sheng Fu:** Good evening, everyone. I'm very happy to report another quarter of strong results. Today, I would like to highlight the three key areas of strong performance -- number one, user growth; number two, mobile revenue growth; and then number three, strategic partnerships.

First, our user growth -- we added more than 56 million monthly active users in the quarter. Our

mobile MAUs reached 340 million, a 184% year-over-year increase. According to App Annie, Cheetah Mobile was the number three publisher for non-game apps on Google Play by monthly downloads in September.

Our flagship app, Clean Master, also remained at number one in the Tools category on Google Play. More than 16 million users have reviewed Clean Master and rated it 4.7 out of 5, the highest rating among major apps.

Our mobile apps continue to gain popularity and the positive word of mouth around the world, driving mainly by our focus on product innovation and user experience. In September, Clean Master and CM Security were once again awarded the top spot on AV-Test's latest assessment of android security. In addition, to have better served our global users, we have also set up and expanded our R&D operations in Taiwan.

Second, mobile revenue growth -- led by a significant ramp-up in mobile advertising revenues in the overseas market. Mobile revenues grew 628% year-over-year and 48% quarter-over-quarter to RMB113 million. Mobile now accounted for 24% of our total revenues. After setting up a business development center in San Francisco, we now have relationships with hundreds of mobile advertisers overseas.

In addition, we also studied our overseas gaming operation by testing a number of mobile games in different overseas markets. As a result, our overseas mobile revenues accounted for more than 10% of our total revenues in the quarter. And we will continue to grow significantly in the future. Those encouraging results again suggest our belief and a commitment to investing in mobile and a global future for our Company.

Third, strategic partnerships -- as a company, we firmly believe that partnership is one of the best ways to grow our business. In China, we have expanded our partnerships with Baidu, Tencent and Alibaba to the mobile side. Internationally, we continue to strengthen and build new partnerships with key mobile ad networks to further enhance our mobile monetization.

In addition, given the popularity and the quality of our apps, we are able to attract major phone makers to help promote our apps. For example, we have recently formed partnerships with the India-based Karbonn and Lava and Taiwan-based HTC to promote our apps. This partnership and other upcoming partnerships will continue to help expand the reach of our apps.

Finally, while we are delighted with the progress of our mobile business so far, we are still in the early stage of our mobile and global vision. To capitalize on the massive opportunity in mobile, we remain committed to invest in the product, innovation and growing our user base and user engagement.

That will conclude my part of the presentation. I will now turn the call over to our CFO, Andy Yeung.

**Andy Yeung:** Thank you, Sheng Fu. Good evening, everyone. We're delighted to again deliver solid financial results that were above our previous guidance.

Total revenue grew 158% year-over-year to a new record high of RMB479 million in the quarter, exceeding the higher end of our guidance by 9%.

We are especially excited to see significant progress in our mobile and global vision in the third quarter. As Sheng mentioned earlier, mobile revenues increased by 628% year-over-year and 48% quarter-over-quarter to RMB113 million or 24% of total revenue.

We made significant strides in expanding our mobile advertising business overseas. Overseas mobile revenues accounted for more than 10% of our total revenue in the quarter. As overseas mobile revenues become a significant part of our revenue composition, we will begin to disclose the revenue breakdown based on international versus our domestic PRC revenues in the appropriate time sometime next year.

Now, I will walk you through the details of our financial performance. All financial numbers are in RMB unless otherwise noted.

Revenue from online marketing services for the third quarter were approximately RMB361 million, an increase of 143% year-over-year and 27% quarter-over-quarter. The increase was largely due to growth in marketing revenues from key online marketing customers, driven by significant growth of our user traffic.

While we continue to see robust demand from our top three customers, we saw even stronger demand from other advertising customers, including those in e-commerce, online travel and local services sectors, all of which help us further diversify our revenue base. Most notably, we continue to experience significant growth in our mobile advertising business that was driven by a significant ramp-up in the overseas market.

Revenue from IVAS for the quarter was RMB107 million, up 344% year-over-year and 27% quarter-over-quarter. The increase was primarily due to a larger number of published games and paying users compared to the same period last year, as well as contribution from the recently established online lottery services.

Revenue from internet security services and others were RMB10 million, down 18% year-over-year and 16% quarter-over-quarter. The decrease was primarily due to the Company ceasing to promote subscriptions services in a strategic reorientation which started in 2011.

Moving on to our costs and expenses -- SBC expenses were RMB57 million in the quarter compared to RMB7.6 million in the same period last year and RMB52 million in the previous quarter. As we stated in the past, we will incur high SBC expenses this year largely due to shares and options granted to management and employees before the Company's IPO in May.

To help facilitate the discussion of our Company's operating performance, the following discussion will be on a non-GAAP basis, which excludes stock-based compensation expenses. For financial information presented in accordance with US GAAP, please refer to our press release which is also available on our website.

Non-GAAP total revenues in the third quarter were RMB110 million, an increase of 194% year-over-year and 34% quarter-over-quarter, mainly due to higher bandwidth and IDC costs from increased user traffic as well as costs associated with the mobile game business.

Non-GAAP gross profit for the quarter was RMB369 million, an increase of 149% year-over-year and 24% quarter-over-quarter.

Non-GAAP gross margin for the quarter was 77% compared to 80% in the same period last year and 78% in the previous quarter. As previously stated, we expect gross margin to continue trending down gradually by 1% to 2% each quarter, given our revenue mix shift.

Non-GAAP R&D expenses in the third quarter were RMB120 million, an increase of 90% year-over-year and 36% quarter-over-quarter. This increase was primarily due to increased headcount associated with the expansion of our mobile business.

We added roughly 200 R&D staff in the third quarter and more than 500 in total over the past year. At the end of the third quarter, we had more than 1,200 R&D staff.

Non-GAAP selling and marketing expenses in the third quarter were RMB165 million, an increase of 251% year-over-year and 43% quarter-over-quarter, mainly due to promotional expenses related to the expansion of our mobile business and deepening our global penetration.

Non-GAAP G&A expenses increased by 48% year-over-year and 12% quarter-over-quarter to RMB32 million due to increased headcount and professional fees associated with being a publicly listed company.

Non-GAAP operating profit was RMB52 million, an increase of 224% year-over-year and a decrease of 21% quarter-over-quarter.

Non-GAAP operating margin was 11% compared to 9% in the same period last year and 17% in the previous quarter.

Non-GAAP net income was RMB60 million in the quarter compared to RMB30 million in the same period last year and RMB65 million in the previous quarter.

Non-GAAP diluted earnings per ADS was RMB0.43 in the third quarter 2014 or \$0.07 per ADS compared to RMB0.11 in the same period last year and RMB0.49 in the previous quarter.

Now, let me provide you with our fourth quarter revenue guidance. We currently expect total

revenues for the fourth quarter to be between RMB560 million to RMB570 million, representing a 108% to 112% year-over-year increase.

Please note that this forecast reflects the Company's current and preliminary view and is subject to change.

Now finally, as we mentioned previously, while we continue to experience year-over-year improvement in operating margins in recent quarters, mobile internet is still in its early stages of development. We remain committed to invest in our mobile and global future. Product innovation, user growth and mobile monetization remain our top three priorities at this point.

And with that, we conclude our prepared remarks for today. Operator, we are now ready to take questions.

### **Question-and-Answer Session**

**Operator:** Thank you. We will now begin the question-and-answer session. (Operator Instructions). Jiong Shao of Macquarie.

**Jiong Shao:** (Speaking foreign language). I was asking about the mix between mobile games and advertising for the mobile revenue, and the number of mobile games in China and outside of China, and also the pipeline for the mobile game launch for the next 6 to 12 months.

**Andy Yeung:** At this time, we do not disclose the breakdown between mobile advertising revenues versus mobile games. The reason we don't do that, as we have probably discussed in prior call, is that we're still very early in our mobile monetization. And each quarter, we have launched some new initiative and that would shift the mix between mobile advertising revenues versus mobile games.

So as you look back at our monetization history, for example, we will begin to do mobile monetization in the second quarter last year at the beginning, all them based on amortizing; and in the third quarter and fourth quarter beginning to launch our mobile game business. So as you can tell, the mix shift.

And then the first quarter, there was very strong mobile game revenues, and then the second quarter, as we have disclosed, we have had strong mobile revenue growth in domestic markets.

In the third quarter, we have launched our mobile advertising overseas and we've seen very, very strong ramp-up in overseas markets. So obviously, that's again a big shift back to the advertising business [technical difficulty] domestic game strategy and pipeline, also overseas game strategy and pipeline.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So as you can tell, we are still very early in our overseas mobile game operations. We just launched our mobile game operation overseas recently and we're just testing some games right now, and so now at last, we see pretty strong potential for overseas game operation.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So at this point, we have achieved a breakthrough in the overseas advertising business. And so obviously, in the near term, we will see a very strong growth on our mobile advertising business.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). And also, if you look at Facebook and other mobile internet companies in the overseas market, they also have experienced very strong growth in mobile advertising business, and that also strengthens our belief and commitment to our mobile advertising business overseas.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So obviously, if you look at the Chinese mobile gaming market right now, it's very active, and we're quite successful compared to global peers. Also, we have some games that we have lined up to launch in the near future, but before we launch, we don't want to disclose those titles yet.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So one of the things I would like to disclose here is a game called (inaudible). It's a game targeting a female audience that has achieved very strong results in the Chinese market. We also get global licensing from the developers and we believe that there's a very strong potential for this game in the overseas market, especially in Japan.

**Jiong Shao:** Okay. (Speaking foreign language). So my second question is about where the Company was seeing the biggest momentum among the three top apps the Company has, which is Clean Master, Battery Doctor and CM Security. And I was also asking about any change in competitive landscape since competitors, basically Qihoo, launched somewhat similar apps also out of China through different channels, such as GOMO?

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So as we can tell from the information -- the data that we have disclosed, the reception and the demand for mobile utility application was very strong and

perhaps stronger than most people have originally expected.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So especially if you look at monetization, I think there was some skepticism about our ability to do monetization for mobile apps, and as you can tell from this quarter, we have seen very strong results. But right now, we don't want to disclose which app is generating more revenue versus the other.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at the recent market entrants by our competitor, which is not new -- actually, have entered the market for a while now, maybe some renewed effort recently -- but you also see other players that are trying to get into the utility application space. That basically validates our initial thought that the utility applications are very valuable applications. Now, people finally realized that low-hanging fruit that we have accomplished in the first place.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at the competitive landscape for utility applications, at the beginning, it was a single app, but I think we're already seeing a transition from a single app to more like a product matrix like what we have done. And with that, I think we have [adopted] a very high barrier or competitive edge over our competitors.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So you may occasionally see our competitors make some effort or spend some money that create some [stop-go] in the markets, but if you look at it, none of them are as committed as we are. Our Company's 2,000 employees are very totally committed to our mobile and global future. And if you look at our ability to cost out our product and in terms of our user engagement, and also our monetization abilities at this time, I think we are way ahead of our competitors.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). I think if you look at the competitive landscape today, as long as we are focusing on our product, our user experience, it would be very difficult for our competitor to actually overcome our competitive edge.

Next question, please.

**Operator:** Philip Wan of Morgan Stanley.

**Philip Wan:** (Speaking foreign language). You mentioned that native advertising was one of the key growth drivers for your advertising revenue this quarter. Just wonder if you could share with us more detail, for example, the percentage of contribution from native advertising, conversion rate of pricing as compared to other non-native advertising? That would be very helpful.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So when we mentioned native app, what we meant is that we will create a contextual base or certain context to display through the advertising. And we were able to try to match that and customize that with our user profiles, and I think with that, we find that we are able to achieve pretty good reception through those advertising.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So I think if you look at the ad format or the context, it may be important, but I think more importantly is our ability to actually utilize the data we have and to perform a big analysis on our user base, and able to profile our user and match that to our demand for our advertisers. I think that is actually very valuable.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). And also our ability to (inaudible) sell our advertising to advertisers also help us to boost our mobile monetization in the quarter.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So in term of different ad formats and the revenues from those different formats, I think at this time, we will not disclose it for competitive reasons.

**Operator:** Ella Ji of Oppenheimer.

**Ella Ji:** (Speaking foreign language). So I have two questions. First, what is the revenue contribution from Hong Kong Zoom Interactive to your total revenue this quarter? And secondarily, there was a big step-up in both R&D and the sales and marketing expenses this quarter. How should we think about the trend going forward?

**Andy Yeung:** So the first question regarding [P-Zoom], we acquired [P-Zoom] last quarter and integrated it into our operations. Before the Company was integrated into our operations, it had been doing mobile advertising for 4 years, but its revenue base is relatively small, mainly because it's still an early startup, in that sense, but we will continue to integrate that operation.

As we mentioned in our press release before, our intention to acquire [HongKong Zoom] is to acquire their expertise and the team and technology on mobile advertising. And we'll use that as



a basis, or to help us form a base for our mobile advertising technology. And we are very pleased with the progress of the integration so far. And again, the revenue contribution is still small, but it is growing pretty rapidly.

And the second question regarding R&D spending and sales and marketing, in terms of R&D, we continue to put a high priority on product innovation and product development. So as a result, we will continue to invest in R&D.

In the quarter, I think the [SAP] headcount increase was quite significant, about 200 in the quarter. But as you probably know, the third quarter is after summer and generally is a season after the graduate lands the job. So as a tech company, that's usually a time when we hire more engineers in the third quarter every year.

And then also in sales and marketing, as we also mentioned, we continue to focus on -- user acquisitions remain one of our focus, and we'll continue to invest in that area and also in brand-building, but as you can tell, even those are still increasing at a very rapid pace. It has actually moderated from prior quarters.

If you look back in the same quarter, for example, I think our sales and marketing expenditure was actually more than 300% year-over-year increase in the second quarter. So even though it's still very high, but we're clearly seeing some operating leverage in our model. So hopefully, that answered your question.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at our investment today, you may -- it's still at a very high level right now. But we're pretty confident that given the pace of our mobile monetization progress, especially in overseas markets, we believe that our investment would yield very positive returns for our investment.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So as you can tell, while we still invest very heavily on our mobile business, we are definitely spending money carefully to make sure that they're spent effectively to promote our business, our brand and products. And again, we want to emphasize the mobile industry as a whole is still pretty early in its development. As a result, we will continue to invest again in product development, in product innovation, user experience and user base increase.

**Operator:** Evan Zhou of Credit Suisse.

**Evan Zhou:** (Speaking foreign language). The first question is regarding PC Personal Start Page, so we saw some minor MAU drop quarter-over-quarter this quarter. So just wondering if we can have some more color on how do we see the future engagement level and the monetization level for this product going forward?

**Sheng Fu:** Okay. (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at the PC personal directory services, Personal Start Home Page services, in terms of user traffic, we have mentioned in the beginning of the year that we see the overall PC user growth in China was going to be moderating; it's not stagnant.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So I think as we mentioned, we use [IM] search data for the user traffic and daily active user and monthly active user numbers, but our tracking data actually indicates that there's not much change in our user traffic.

**Andy Yeung:** Then also, I want to add -- I know because I'm very close to the data. And we also want to make sure people pay attention to the fact that the number of 61 million is actually for the month of September. And if you look at the average of the whole quarter, which is including July and August and September, you'll actually see a mid-teen increase in terms of our monthly active user.

The distortion comes in because September is (inaudible) there when kids go back to school and what-not. At the beginning of the school year, it tends to have an impact on the user traffic.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at PC traffic growth, we're definitely seeing that moderating. But nonetheless, we continue to see opportunities in improving monetization for our PC user traffic, and that should, coupled with the moderate increase in our user traffic, should produce pretty [substantial] growth in the near term.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). As our Chairman, Lei Jun has said before there's no sense of fighting a half-battle. If you look at the PC industry, the PC industry as a whole is definitely going to moderate. It's just a matter of time, and so that's the reason why our Company has invested heavily in mobile more than 2 years ago, and that will continue to be our main focus going forward.

But nonetheless, when we look at the PC business, we believe that there is still some growth in the PC business, but people should not have too high expectation for accelerating growth in the PC business. That would be unrealistic. But I think PC growth right now -- if you look at our growth rate on PC, it's still very strong, but it will continue to moderate over time, converging into the industry average.

**Operator:** Alex Yao of JPMorgan.

**Alex Yao:** (Speaking foreign language). As we approach the end of the year, what is the top priority for you to achieve for 2015? And how would you accordingly allocate your corporate resource to achieve the target?

**Sheng Fu:** Okay. I think the top priority -- (Speaking foreign language).

**Andy Yeung:** (Interpreted). As you can tell, our Company, we have been IPO'd for more than half a year now and I think everyone can see that we are pretty strong in product development and also in execution.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So as we look to in 2015, global and user acquisition remain our key focus, but as you can tell from the past, we have been very good at executing user acquisitions and our global strategy. So I think that will remain the focus for next year.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). Obviously, there are still some people relatively skeptical about Chinese companies' ability to be successful overseas, especially on mobile monetization. And that has been my personal focus in the third quarter. I spent a lot of time in the US and on the overseas market and we have seen very good progress.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). After the quarter close in the third quarter, the data in October and early November continue to indicate very strong momentum for our mobile monetization, especially in the overseas market. And as a point of reference for you, recently our mobile overseas advertising business has achieved more than \$200,000 per day revenues. So that gives some indication how strong that business is growing right now. We're pretty confident that in the coming quarter and next year, we'll be able to demonstrate our ability to be successful in mobile and global monetization.

**Operator:** Henry Guo of JG Capital.

**Henry Guo:** (Speaking foreign language). My question is really about -- first of all, you mentioned that in the prepared remarks that the strategic alliance with the leading Chinese internet companies hired for the top line growth, so I'm wondering whether you can provide more color to help us to understand that. And also what is the revenue contribution from Baidu, Tencent and Alibaba?

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). Our partnership with BAT, the big three customers of ours, continues to expand from our PC platform to the mobile platform.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). We're not saying that our revenue growth in this quarter is actually driven by those top three customers. As you noticed that in my prepared remarks, we mentioned that obviously, the big three customers are part of the growth story for us on the online marketing services. But in fact, we actually see, even on the PC side, the big three customers were actually growing slower than our non-big three customers.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). If you look at our overall business, obviously, we continue to strengthen our relationship with the big three customers, but we also build new and strengthen our relationship with other customers. In fact, if you look at some of our other business lines, for example, mobile and gaming operations, we're also growing very fast with that. So overall, we think the whole Company is running very strong across different business lines.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). We don't want to disclose exact number, but if you look at our mobile business, for example, now it accounts for 24% of our revenues. And if you look at our mobile revenues, even that, 11% of the 24% from overseas, obviously, that does not rely on the big three customers in China.

And if you look at even in China itself, mobile advertising, for example, we have a lot of advertisers, game developers, app developers, other brand advertisers. So overall, if you look at our diversity in our customer base, it continues to expand and increase. So that's something that we're pleased to see.

**Operator:** Jeff Hao of China Merchants Securities.

**Jeff Hao:** (Speaking foreign language). So my question is regarding the MAU contribution between overseas market and domestic market. So the percentage of overseas mobile, you dropped a little bit quarter-on-quarter, so I'm just trying to understand the reason behind that.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So one quick clarification here. So our goal has always been to try to be a global mobile internet company, not an overseas or international-only mobile internet company.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). Obviously, China is a very important market for us. It's our home market and it has always had one of the largest user base for us on the mobile side. So we also have always paid a lot of attention to our Chinese market as well.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at our user base, we have 340 million monthly active users of our mobile business and 65% of that is overseas. That implies that there is more than 100 million monthly active users in China alone. And going forward, if we look at the mobile market in China, US, India, those will be some of the key markets for us to continue to focus on.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). If you look at our strong reputation and quarter-over-quarter, that obviously has a boomerang impact on the Chinese market. The Chinese users and the Chinese players also see the same thing and that (inaudible) help us form partnerships to help us to promote some of our products in the Chinese domestic market.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). As we always have tried to guide investors to look at our overall user growth instead of any specific country, because there's always some fluctuation perhaps on a quarter-over-quarter or month-to-month basis. If you look at our user base growth both in China and overseas have grown very strongly in recent months and quarters. So even if you look at third quarter, for example, we continue to see very strong user growth in overseas market. Obviously, China [will] grow after this quarter, but overall, looking forward, we will continue to see very strong global user base, overseas base and in China user base.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). If you look at our internal corporate structure, for example, the team (inaudible) responsible for the products for the overseas market and [technical difficulty] increasingly, it's up to the team right now. And it's healthy to have some internal competition between those two teams.

**Operator:** Anna Yu of ICBC International.

**Anna Yu:** (Speaking foreign language). I have a quick follow-up regarding the mobile. We have invested in mobile aggressively for over a year. When do you think it's okay for us to start largely monetize the mobile business [technical difficulty] from overseas market and we start to see a much stable margin? And also, could you give us a breakdown about the internet value-added service business? Which (inaudible) about the PC game, mobile game and also the

revenue contribution from the lottery business?

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). Regarding the investments in mobile both in terms of R&D and sales and marketing, to be honest with you, when we look at the mobile market today, it's still very early stages in its development. So I think in the near future, we'll continue to invest in that business. And I think the return for that investment will be very positive over the long term.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). Just to give you some point of references, if you look at, for example, Facebook, one of the most successful mobile internet companies today, it has more than 1 billion EAU and more than 1 billion MAU. So as a company, we set our goal to be a global mobile internet company. And so we probably won't be happy until we at least see getting close to half of what Facebook was able to achieve in terms of their user base, their user engagement.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So even in our discussion with leading mobile internet companies like Facebook, they continue to believe that there is a lot of growth in the mobile user base. So Facebook, they believe that there's still several billion of consumers yet to be reached by the mobile internet yet. So for them, mobile user acquisition remains a top priority and that's true for us as well.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). Of course, we understand investors would like to see a return for their investment, but we believe that the best way to do it is not by investing in product development or user acquisition, but by our ability to increase our ability to generate revenues and I think that's most [important].

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at our investment, for example, for our mobile product overseas, for a good part of the last couple of years, there was almost virtually no revenue from the overseas market, but we continued to invest in that and grow our user base. And today, if you look at the third quarter, our investment today in the third quarter investment in the overseas mobile market is actually less than what we were able to generate in terms of revenue from those markets.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). [Technical difficulty] a transition or transformation. We're moving away from PC -- not moving away, but we're definitely transitioning into an age of mobile era and our investment is in that direction. And you also witnessed our Company's increasingly diversifying our revenue base away from China only. You see our mobile revenue overseas are growing very rapidly, for example.

So going forward next year and the year after, we will continue to see that transformation. And even if we don't -- we use our investment in mobile or global, we'll still see our operating leverage returning to our business model gradually. The reason for that is because if you look at our ability to increase our revenue growth, that's strong.

But again, I want to [caution] investors, while for the last couple of quarters, as we mentioned in the prepared remarks, we have seen a gradual year-over-year operating margin improvement in the last couple of quarters, but profitability is still not our priority. Our priorities remain product development, user acquisition and monetization.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at our historical financial data, you'll notice that while we continue to invest heavily, we have gradually seen moderation in that investment as a [percentage] of revenue. I think that trend will continue.

While at the same time, you see our revenues from mobile continue to grow very rapidly. I think we're in that [technical difficulty] transformation. Right now, over the past two quarters and today, we're still in investment phase, but gradually, we'll see the operating leverage returning to our mobile operations. We're pretty confident on that.

**Operator:** [Josi Shao] of Barclays.

**Josi Shao:** (Speaking foreign language). Okay. My question is on your pre-installation, the cooperation with handset manufacturers. So do you expect this to become a key distribution channel for Cheetah Mobile going forward? And what's the pre-installation (inaudible) for next year and will this have a big impact on margins?

**Sheng Fu:** Okay. Let me answer your question. (Speaking foreign language).

**Andy Yeung:** (Interpreted). So if you look at the mobile market, for example, we still continue to believe that online distribution remains the most important channel. However, pre-installation could act as a supplementary channel [technical difficulty].

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). If you look at our pre-installations and (inaudible) the pre-installations, it actually has been very good. So it has become one of the competitive advantages

for us compared to our competitors.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). Obviously, right now, we have met [technical difficulty]. We also have other key partnerships that are upcoming. So I think pre-installation could be a very important channel for us for our app distribution, but I think our pre-installations will be different from other players when they do pre-installation partnerships. We require deeper integration with OEMs and there is also some exclusivity to our partnership with them. So we think that our partnerships with OEMs are actually a key strength for us as well [going forward].

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So in terms of budget for installations, I don't think that's too much of a worry for us. We're very careful with spending effectively our working dollar, but the focus for us, I think, will continue to be actually, as we look at our mobile monetization, for example, we've seen very strong results. And I think that's more encouraging than worrying about the installation cost, for example.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). So when we look at pre-installation too, in general, we look at a number of key metrics, or KPIs, to make sure that we spend the money effectively, to make sure that, for example, we generate more revenues and profit from a user than we spend on pre-installation cost. So that's the way we look at it.

**Sheng Fu:** (Speaking foreign language).

**Andy Yeung:** (Interpreted). After doing some pre-installations in the recent quarters, we have a lot of experience on that and we are pretty confident that we can manage that channel effectively.

**Operator:** Thank you. This concludes our question-and-answer session. I'd like to turn the conference back over to Helen Zhu for any closing remarks.

**Helen Zhu:** Thank you, everyone, for listening to our call. We look forward to our next conference call with you, and so this concludes our conference call today. Thank you.

**Sheng Fu:** Thank you.

**Andy Yeung:** Thank you, everyone.

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