Mr. Fu Sheng: Our second quarter results came in line with our previous guidance. Our total revenue grew by 15% year-over-year to RMB 1.2 billion. And our non-GAAP operating profit grew by 2.5 times year-over-year to RMB 90 million during Q2.

Now I would like to share with you some operational details. I will start with our utility product business. We have continuously enhanced our product features to strengthen our leading position in the global utility app market. For example, further improved our
Clean Master products by searching deeper into and covering a broader range of apps. Our user can effectively clean out unwanted junk file in all sorts of apps, including social apps, photo sharing apps, and the video sharing app, to free up more memory space.

Also, we have launched a new functionality called SafeConnect in our Security Master product, which is an enhanced version of our CM Security product. SafeConnect is designed to provide secure data transmission so that our users can have a safe online environment. This is especially important for critical applications, such as banking, online shopping and instant messenger.

In addition, we have been employing new way to satisfy user demand in our utility app business. For example, for our CM Launcher products, we have released a large number of personalized-theme products by creating third-party designers. We also launch new features with amazing 3D effects.

As a result, our enhanced CM Launcher product has attracted many new users who are younger than our traditional user base, and both of its monthly and daily active user counts have grown substantially.

According to FNE, CM Launcher has ranked as the top personalized app in the U.S. on Google Play since this May. We see higher market potential of the CM Launcher app in the long run, while continuously improving our utility products. We have also made great efforts in optimizing their costs and expense structure. As a result, we continued to generate robust operating profit and cash flow in our utility products business in Q2.

Most notably, our operating margin increased by 11 percentage points year-over-year to 26% during the quarter.

Going forward, we will continue executing our strategy of maintaining the profitability of our utility products while growing our new business, including content-driven products and the mobile games.

Now turning on to mobile games. During the second quarter, we continually to expand our user product portfolio and find new way to generate revenue. As a result both top and bottom lines of our mobile game business grew considerable during the quarter.

On the product side, Piano Tiles 2 and Rolling Sky remained among the most popular mobile games in the world. According to the FNE, during the past 12 months, Piano 2 and Rolling Sky ranked among the top three music games and board games in the U.S. on Google Play.

Building on success of our enriched 15-game portfolio, in early 2017, we introduced a number of new games, including Dancing Line, Arrow, and Tap Tap Fish. Our robust mobile game portfolio has attracted over 100 million MAUs worldwide.
On the monetization side, we continue to find new business models. In the past, our game business generated revenue mostly through ad placements. Recently, we began to try out in-game purchase to provide new features to users [that will] enhance their game experience.

Our experiments have produced some encouraging results so far. As an example, the paying user count of our Tap Tap Fish game has doubled since the beginning of this year.

Moving to our content-driven products. Live.me contributed majority of our content-driven products revenues. Its operating metrics has improved considerably in Q2 as a result of our various product improvement measures.

For example, we introduced a user incentive program called Star Playing that encourages users to invite friends and share live videos to earn Star points. All those Star points can be converted into actual cash. User can use their earned Star options to purchase virtual gifts for their favorite broadcasting host. In return, their favorite hosts are giving them a personalized response.

For the host, the more Star points they receive, the higher they ranked in popularity, and it's more likely they will get recommended by Live.me's landing page.

So both hosts and fans have the incentive to interact with each other, which have strengthened their engagement on our platform.

We have also invested a significant number of homegrown celebrity hosts. We recently started offering regular online and off-line training course to our hosts. For those [who] have achieved outstanding performance during training, we direct more user traffic to their showroom.

[Right on] we have helped many unknown ordinary people become extraordinary Internet stars, and their experience are quite inspirational.

For example, one of our hosts in America was a soldier. And after returning to U.S. from overseas deployment, he lost an arm in traffic accident. Yet, he didn't give up on life. On our Live.me, he became a live broadcasting host. His popularity on Live.me has grown rapidly, and his life story inspires many fans to take on life's challenges with a positive attitude.

In addition, we made great progress in enriching Live.me's live video content.

In Q2, we introduced two new form of live broadcasts. One form broadcast popular mobile games, including Hearthstone, Minecraft and Clash Royale. The other [from] broadcast live talent shows, including singing, dancing, stand-up comedy, art, painting, and sports content.
To further increase our live streaming content, we’ve recently added some broadcasting hosts from India, Indonesia, Vietnam and other developing countries.

Overall, we will continue to increase Live.me's user engagement and user stickiness through product improvement and content enrichment.

With that, I will now turn the call over to Vincent for financial update.

Mr. Vincent Jiang:  Thank you, Mr. Fu Sheng.  Hello, everyone.

The second quarter results came in line with our previous guidance.  Let me start off with our financial highlights.  Please note that all financial numbers are in RMB unless otherwise noted.

Our total revenues came in at RMB 1.2 billion, representing a 15% year-over-year increase.  This was led by the growth in our Live.me and mobile game business.

Breaking down our total revenues by platform.  Our mobile revenues represented 86% of our total revenues in the second quarter of 2017, up from 74% in the same period last year.  Although the number of our mobile MAUs decreased slightly to 581 million in June, we are glad to report that our mobile revenues continue to increase and achieved a record high during the quarter, which speaks well of our strategic shift of focus to the quality rather than the quantity of our user growth.

Breaking down revenues by regions.  Overseas revenues accounted for 70% of our total revenues, up from 54% in the same period last year.  As a pioneer of overseas expansion among Chinese Internet companies, Cheetah Mobile is committed to taking Chinese mobile innovations abroad.  We believe our initiatives in the overseas markets will continue to drive growth in our mobile and overseas revenues.

Driven by our top line growth, our non-GAAP operating profit in the quarter increased by 254% year-over-year and 78% quarter-over-quarter to RMB 90 million.  This significant improvement was a result of our implementation of cost controls for our utility products, though it was partially offset by increased investments in our content products, namely Live.me and News Republic.

In addition, we continued to generate strong free cash flow in the second quarter.  Our free cash flow grew by 90% year-over-year to RMB 185 million in the quarter.  This increase was primarily due to a higher net profit and better working capital management.

For the second quarter of 2017, our cash, cash equivalents and short-term investments were RMB 2.3 billion, a net increase of RMB 442 million sequentially from the first quarter, primarily due to Live.me's new financing this May as well as the free cash flow generated from our operations.
Our strong cash flow gives us the flexibility to invest in our future in order to build a profitable and sustainable growth model for the long term.

As of June 30, 2017, we had long-term investments of RMB 935 million. Our long-term investment portfolio includes several well-known mobile companies, including musical.ly, a video-sharing app mainly focusing on the U.S. market, and WiFi Master, a utility app that connects users to free WiFi hotspots.

Furthermore, our total net capital gain on disposal of long-term investment assets in the past three years has reached over RMB 100 million.

Now let me walk you through our business lines. Because our various business lines are in different phase of growth, in the first quarter of 2017, we reported our revenues according to business lines to help investors better understand our business. As we increasingly evaluate our utility products and related services separately from the rest of our business to assess its performance and allocate resources, starting from Q2, we will report them as an operating segment. We will report our remaining businesses that include content product and mobile game businesses into another segment named mobile entertainment business.

For our utility products and related services, revenues decreased by 13% year-over-year but remained relatively flat quarter-over-quarter at RMB 820 million in the second quarter of 2017. The year-over-year decrease was primarily due to the decline in PC revenues as Internet traffic in China migrated from PC to mobile.

In the second quarter, as a percentage of total revenues, PC revenues decreased to 14% as compared to 26% in the prior year period and 15% in the prior quarter.

Mobile utility products and related services remained relatively stable year-over-year, but increased by 4% quarter-over-quarter in the second quarter. The sequential growth was primarily due to the increase in eCPMs in the domestic market as we continue to improve our mobile targeting capabilities and enrich our advertising customer portfolio.

Non-GAAP operating profit for our utility products and related services increased by 51% year-over-year and 90% quarter-over-quarter in the second quarter, to RMB 230 million. The growth in non-GAAP operating profit was due to our strategy of optimizing the cost and expenses structure of our utility products to maintain profitability. In particular, our sales and marketing expenses for utility products decreased by 36% year-over-year and R&D expenses decreased by 22% year-over-year.

For our mobile entertainment business, revenues increased by 271% year-over-year and 2% quarter-over-quarter to RMB 371 million in the second quarter of 2017. Specifically, revenue from our content-driven products was RMB 280 million in the second quarter, which was relatively flat compared to Q1 but still a major increase compared to Q2 last year, as we just started generating revenue from content-driven products at that time.
Live.me, a popular live video streaming app serving overseas users still contributed the majority of our content revenues. As we stated previously, our strategy for Live.me currently is to focus on product improvements and innovation rather than monetization, as the product is still in its early stage of growth.

Revenues from our mobile game business increased by 58% year-over-year and 9% quarter-over-quarter to RMB 153 million in the second quarter. The growth was mainly due to our continuous efforts to introduce more mobile casual games earlier this year, which further enriched our mobile gaming portfolio.

Meanwhile, we continue to find new ways to monetize our mobile game business, which also contributed to its revenue growth.

One thing also worth mentioning is that we just celebrated the second anniversary of our flagship mobile game, Piano Tiles. In the two years since its launch, Piano Tiles have covered more than 700 music pieces by over 200 composers.

Our non-GAAP operating loss for the mobile entertainment business was RMB 122 million in the second quarter as compared to a loss of RMB 106 million in the same period last year and a loss of RMB 128 million in the previous quarter.

The loss was primarily due to our increased investments in content-driven products. On the bright side, our mobile game business became profitable early this year, primarily driven by the continued increase in our mobile game revenues.

Looking into our revenue guidance. For the third quarter of 2017, we expect total revenues to be between RMB 1.15 billion and RMB 1.21 billion representing a 2% to 7% year-over-year increase. Please note that this forecast reflects the company's current and preliminary view and is subject to change.

Overall, if you look at our past two quarters, we have shown that our utility products and related services are capable of generating strong profits and cash flow. At the same time, we remain optimistic about growing our content and mobile game business in the long run.

This concludes our prepared remarks. Operator, we're now ready to take questions. Thank you.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. David Sun with Morgan Stanley.
David Sun: (Spoken in Chinese) So I will translate the question by myself. So the first question is regarding the Live.me. We see the user download gradually recover in second quarter from the March level, while the monetizations was relatively stable quarter-on-quarter after the strong momentum in the past two quarters.

So can management share with us the development strategy, such as user acquisitions for Live.me? And also, how should we look at the revenue contributions and the profitability of this business in the second half and probably 2018?

So my second question is regarding the games. So we see that starting from July, a few mobile casual games [from us] show encouraging download ranking trend in the domestic market.

So can management share with us what's the game strategy for the company in both domestic and oversea market? And how should we look at the monetization potential in different market for those casual games and also the implication to the MAU? Thanks.

Mr. Vincent Jiang: David, let me take on the first question about Live.me. Well, actually, as you observed, that we have a slight recovery in terms of user downloads and the revenue is still relatively stable right now.

And as Mr. Fu Sheng just mentioned in his remarks, currently, our focus is still to improve the Live.me product itself. So we have taken a number of measures, including, actually he just said we have [start] plan to encourage user invite friends and share live videos, this is for promoting the user engagement. And so we try to have more homegrown celebrity hosts. And we are trying to enrich the live video content.

So those are all the product improvements and all the efforts we're making.

But we are taking a long-term view towards Live.me products. So we're not in a hurry to monetize the existing users. So we are taking a more long-term approach.

With that, for the second half of this quarter and even for the rest of the year, we'll still be focusing on the product itself. As you can see that we have some new players in the market, and, still, growing the user base is still the most important concern we have now. Thank you, David.

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: (Interpreted) First of all, the increase of user in the domestic market have shown that we do have capability to develop our users, and not just in the U.S. market or international market, also in the domestic market as well. So we are a global company that can actually acquire user and promote our products.
And secondly, because we have multiple products right now, they all are pretty popular, which has proven one thing, that we're not a one game, one app company. We have a very healthy matrix of game products and they all help our top line and that kind of reduce the risk of, what if one game kind of fails, what if we lost growth momentum.

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: (Interpreted) So there are several aspects to the game products. First of all, the ability to acquire users. We have not in the game business for long. And for many of our game products, we still don't have in-game purchase, that kind of features. So we [don't] have a lot of more heavily involved users for our games. We're all casual games.

But if we can solve the problem that if we can develop more what we call, so-called medium or heavily involved games and if we can increase the monetization efficiency, then we have a very good opportunity in game business.

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: (Interpreted) Well, in terms of the difference between domestic and overseas markets, actually, from our point of view, it's moreover that the team's operating capability has been lifted to a new, higher level that they cannot only generate sufficient revenue and users in overseas market, and also they are capable of doing the same thing in the domestic market as well.

I think that answer the questions.


Tian Hou: (Spoken in Chinese)

So the first question is related to the Q3 guidance. The guidance range between 2% to 7% year-on-year growth is really a wide range. So I wonder what is this one factor among your business caused such a big range?

Second question is related to your operational expense. So the three items, that's marketing, R&D, and G&A, all of them reduced from the level of Q1.

So I wonder what are the somethings led to such savings? And going forward, what are the trends for each of them? (Spoken in Chinese)

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: (Interpreted) Tian, let me explain this. First of all, from the end of last year until early this year, Cheetah Mobile has done a lot of adjustment to their
products and have improved the user engagement and user experience. And also, it has changed its way of -- on the one hand, it has kind of changed the way it promotes its products. Because in the past, it's kind of highly rely on the promotion. We spent quite a lot of marketing expense to promote its products. And now, a lot of the products were download by the users themself. So there's not promotional expenses involved for the [tool] utility products. That's the first thing. And.

We do have some outside factors that's beyond our control. And for example, in the March 15, there's a consumer -- excuse me. (Spoken in Chinese)

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: The Q2 product, they kind of reduced their recommendation for our PC products that kind of reduced our revenue. But now that revenue, we have already recovered from that point.

And also in the third quarter, in the early part of the third quarter, Facebook and Google both decreased their eCPM. And that time, that caused an impact on our revenues in the early part of the third quarter.

But now we have seen the recovery of the eCPMs. So that created a certain uncertainty in terms of where the eCPM is going, what is the directions. Because as we said earlier, we have, in the early part of third quarter, we have seen some pressure to the revenue, but we have seen recovery in recent a couple weeks.

So we cannot predict a more narrow range of forecast, as we did in the last several quarters. That's why we have a wider forecast range for this Q3.

Tian, I think that answers your question.

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: Yes, there's one more thing. Actually, we have, in terms of second question, in terms of the expenses, the cost expenses, we have been, as part of the adjustment we mentioned earlier to the product, we are adjusting our organizational structure and our workforce.

So that kind of improves the efficiency of the company's productivities. That's where you see the sales and R&D expenses were decreased in Q2. And we will still see little more of those reduction in Q3. But after that, we expect that will remain relatively stable for the rest of the year.

Operator: Thank you. And Wendy Huang with Macquarie.

Wendy Huang: (Spoken in Chinese)
I will translate the question myself. So my first question is about the Live.me. Can you disclose the valuation of the Live.me from the recent financing? And also is Live.me already profitable?

And my second question is a high-level question for Fu Sheng. So when Cheetah was established several years ago, I think the China domestic market was quite saturated and also competitive, especially in the security software advertising and game business. So that's why Cheetah chose a different way to pursue the growth in the overseas market.

However, looking back at the past one and a half years, Cheetah actually had some setbacks in the overseas market due to the external factors that you just mentioned.

At the same time, in China domestic market, we are actually seeing the advertising and gaming market actually rejuvenated growth with some new business models.

So given these changes in China and overseas, will [Fu Sheng] or Cheetah reconsider your long-term strategy? Thank you.

Mr. Vincent Jiang: Wendy, I'll take on the first question. In terms of the valuation for Live.me's early financing round, well, we cannot directly say the value because it's a private deal.

But we do have enough information released in public that you may infer the pricing value of the financing round. As we have disclosed previously, the total investment of that round was $60 million. And right now, Cheetah Mobile has about 70% ownership of Live.me. And within the $60 million investment, Cheetah has a very small portion in that.

So with that kind of information, you may refer a approximate range of that valuation for that round. That's the first part.

And for the second part, about the profitability of Live.me. So right now, in the mobile entertainment segment, it is at a loss. And for the mobile game part, it is profitable, although the profit margin is in the single digits. And so the main loss came from the content product, which is Live.me and News Republic. Between these two products, Live.me is slightly, well, it has not breakeven yet, but its loss is not of significance. Most of the loss came from News Republic.

Mr. Fu Sheng: (Spoken in Chinese)

Wendy Huang: (Spoken in Chinese)

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: Let me translated for the Chinese --
Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: (Translated) Right. So for Cheetah Mobile's global strategy, actually, this is not just Cheetah Mobile's strategy. For most of the Chinese Internet company, overseas strategy has become one of their most important strategy as well. So that's the big trend for Internet companies in China, to go abroad.

And although Cheetah Mobile has facing some outside uncertainties and we believe that we can overcome those obstacles and continue to grow in the overseas markets.

And for the second part, although for the Chinese market, although Cheetah Mobile is known for the first Chinese company to go into the overseas market, but Cheetah Mobile still has very significant domestic market shares, and it has enough users and revenues.

For example, currently, Cheetah Mobile still has about 30% of revenue came from PRC market. And the MAU in the PRC market is more than 100 million right now. And although we didn't disclose in the press release, but our mobile advertising income in the PRC market still be increasing steadily over the last several quarters.

So we believe that with that diverse product matrix, and we have plenty of opportunities in China. For example, in advertising in game in the new artificial intelligence, in all those directions, [we're all] prepared in exploring opportunities in those areas. Thank you.

Wendy Huang: Thank you.

Operator: Thank you. (Operator Instructions) Joyce Ju with Citigroup.

Joyce Ju: (Spoken in Chinese) I will translate my questions. My first question is related to the Live.me. Wonder like what's the current like MAU or like user base number we currently have in U.S. or like overseas for Live.me? And what's the next step like customer acquisition strategy for this product?

And my second question is related to the News Republic. Cost of product is currently still at a loss. So I wonder if management can share that, how's the progress of the product development? And what's the like expected timing of official kickoff of monetization or like product launch? Thank you.

Mr. Vincent Jiang: I'll take on this question. So first of all about Live.me. Right now, because of competitive reasons, we don't incline to disclose the exact number of the operating metrics. But what we can say in that right now about Live.me is that its MAU is in the millions. We do see considerable growth in terms of user metrics.

And in terms of, right now, it is, we said earlier, it's not profitable yet. It's approaching breakeven. And for the remaining quarter and for the rest of year, we will spend more
efforts in terms of improve the product itself. So we will not do a significant amount of
promotion. We will not buy our users. That's the plan. So only main expenses will be
on the products itself.

For the second part of the question of the News Republic. Right now, News Republic is
still a new business model in the overseas market and it is still in the experimental stage,
and we need some more time to see the results.

In terms of the monetization, currently, we are using a very simplistic way to monetize
the product. We added SDK from the third-party advertising network to the News
Republic. For example, if user clicks some news items, within the item there may be an
ad there, and that's how we generate revenue. So this is not a very efficient way.

And so in terms of revenue from News Republic, it's not very significant right now.

And we will not try to explore a lot of monetization opportunity at this stage yet. Again,
we're still experimenting and trying to improve the product itself. Thanks.

Joyce Ju: Thank you.

Operator: Thank you. Robert Cowell with 86Research.

Robert Cowell: (Spoken in Chinese) My question is about News Republic. I want to
know if there are any recent updates on this product? Also, how much money
approximately is it losing in 2017?

And then finally, what are your key midterm KPIs for News Republic? Thank you.

Mr. Fu Sheng: (Spoken in Chinese)

Mr. Vincent Jiang: (Translated) For the News Republic product, if we look at the
operating metrics in terms of the user time spent on the product and the number of
articles a user will read every day and the number of users, and we have all seen steady
growth over the past couple of quarters.

And for the News Republic product, we are still in the early stage in term of investment
and exploring the new ways to grow the product and grow the user base. And frankly, its
growth has not approached our expectation right now.

However, our investment in the News Republic product, which has a lot of technologies,
including personalized recommendation, natural language processing, and artificial
intelligence-related technologies, have significantly enriched Cheetah Mobile's technical
capabilities. And that's the beneficial part, at least, what we can see now.
And we will still try to improve the product and to improve the user experience of the product. And before we are satisfied with that level of user satisfaction, we will not have additional or more investments in the product. We will be more stable or probably we'll decrease it a bit. Thank you.

Operator: Thank you. And as that's all the time we have for questions, I would like to return the call to management for any closing comments.

Ms. Helen Zhu: Thank you all for joining us today. If you have any further questions, please do not hesitate to contact us. Thank you. Bye.

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