
[Begin NBT - CHINA MOBILE GAMES - 1]

Tobin Smith: Toby, Smith, Next Big Thing Investor, and if I told you that in China, the people who play games on phones, which is how you do it, that was gonna grow 50 percent a year over the next three to four years, would you be interested? Would you be interested if I could introduce you to the company that owns about 19 or 20 percent of that business, Hendrick Sin, China Mobile Games?

Hendrick, Chinese people love games. We know that, right?

Hendrick Sin: Yes.

Tobin Smith: We know they love cell phones.

Hendrick Sin: That's true.

Tobin Smith: Because it's like the national bird, right? Everyone has like two-three of 'em. So your business model is to provide games that go on people's handsets that they play, and they're quote/unquote, free.

Hendrick Sin: Yes.

Tobin Smith: And then it's like crack cocaine. You get people hooked on these games and then they have to do what? Then they buy stuff to play the same, right?

Hendrick Sin: Yes. We provide entertainment, low-cost entertainment. So our games are free to play, usually. So we're using free _____ model. Users can decide whether they want to spend money with us on our virtual items, and they have a lot to choose.

Tobin Smith: Yeah, well, so, virtual items, however, cost real money. So 2011, which is the last year that guys report, what were revenues for virtual games?

Hendrick Sin: So about \$30 million US. So it's a lot of sales, indeed, but our ARPU –

Tobin Smith: Average revenue per user, right?

Hendrick Sin: Average revenue per user is about \$1.00 for single-player games, about \$3.00 to \$6.00 for different social games.

- Tobin Smith:* Social games. Now give us an example. Your number one hit is not monkey dong. Tell me about your number hit.
- Hendrick Sin:* It's call Monkey King. It's based on a Monkey King story. It's called [*foreign language spoken 0:01:40*] in Chinese. So it's an MMRPG games. It's ranked number one.
- Tobin Smith:* So say that a little slower. MM _____. What does that mean?
- Hendrick Sin:* It's MMRPG games meaning multiple people role play games.
- Tobin Smith:* Okay, role-playing games.
- Hendrick Sin:* Role-playing games. Like 100,000 people can play at the same time.
- Tobin Smith:* Really?
- Hendrick Sin:* Like you create social experience with each other. You can do activity. You can even fight with each other to do asks –
- Tobin Smith:* You can fight with each other with – all right.
- Hendrick Sin:* Yeah. That's why virtual item come into pictures.
- Tobin Smith:* Yeah, because you – how do you – how do I buy in this came?
- Hendrick Sin:* You can buy weapons. You can buy armor to enhance your levels, your –
- Tobin Smith:* That's why I'm telling you – and I know you _____ the analogy is once you get hooked on the game, then and particularly in fighting mode, I wanna the AK 47 I don't wanna go against the buy with my rubber knife, right? And so I network – when you guy the armor, how do they do it? Do they hit a button and buy it? Because you deal with China Mobile, China Unicom, China Telecom, right?
- Hendrick Sin:* Yes.
- Tobin Smith:* All right. So do I buy – how do I pay for it?
- Hendrick Sin:* Okay. You can choose from operators you mentioned or third-party payment gateways like the PayPal equivalent in China. You then pay Alipay –

- Tobin Smith:* Alipay, which is huge.
- Hendrick Sin:* And, also, by prepay cards. So available in convenience store.
- Tobin Smith:* So you buy a prepaid card, and then you put the digits in, and takes the money off the card.
- Tobin Smith:* Correct. Or you use credit card. We make sure it is convenient, very convenient for users to spend.
- Tobin Smith:* Now if it's only a \$1.00 for something, et cetera, I would assume I would charge \$1.00 on my credit card. I assume that person is using the prepay card. What's the mix of the payment mix? So social games, we have more and more users using _____ payment gateways. Around 40 percent, versus 60 percent for operators, channels. And for single-player game, because it's usually of smaller purchase amount, people – I will call it impulse purchase, and they rather use the operators channel and appear on your monthly statement.
- Tobin Smith:* All right. Well, let's stop there. We're gonna come back in a second, and the thing about this growth, I'll just leave you with this. Currently, they'll me how many players in China and then where does the industry project over the next three-four years?
- Hendrick Sin:* Okay. Put it this way. There are about 1 billion handsets in China, so there are 1.3 billion people. So roughly one handset per –
- Tobin Smith:* Right. Everybody's got a handset.
- Hendrick Sin:* Yes.
- Tobin Smith:* Including babies, which is just weird but go on.
- Hendrick Sin:* Yes. Roughly. And some people got, of course, more than one handset in the cities. So reputable research agencies is predicting that 2012, the total revenue from mobile games generated about \$4.7 billion –
- Tobin Smith:* Billion American.
- Hendrick Sin:* I'm sorry. Renminbi.
- Tobin Smith:* Renminbi, okay.

Hendrick Sin: And for 2015, four years, three years down the road, it will become \$27 billion. So mobile games is experiencing a very high growth at the moment.

Tobin Smith: All right, well, we're gonna come back and talk about how that growth is gonna put money in this guy's pocket, all right? Next big thing in games you play on your mobile phones, it's right year.

[End NBT - CHINA MOBILE GAMES - 1]

[Begin NBT - CHINA MOBILE GAMES - 2]

Tobin Smith: Toby Smith, Next Big Thing Investing. I'm here with Hendrick Sin who is the Lord **sixth** Lord of mobile gaming in China. Now we were just talking about the growth, so \$4 billion RMG to \$27 billion over the next three-four years.

Hendrick Sin: Correct.

Hendrick Sin: The PC era is over. We know that. It already peaked. We have more people on the mobile Internet today than we have on the PC Internet, if you will. So people live on their cell phone. They live in their **cell experience**. In China has been behind this growth curve in terms of smartphones. In terms of smart phones, very small penetration relative to everybody else. But, the better phone people get, the better speed they get, the more they play games, right?

Hendrick Sin: Correct. It really enhance experience of users if it as a smart phone versus the non-smartphones. And it is 3G versus a 2.5G or 2G. So why these few years is growing very quickly because Chinese smartphones market has become a lot more viable these days, you can buy a low-end smartphone with 50 US dollar these days. So it becomes a lot of –

Tobin Smith: That's at the high end. The last time I was in Shanghai, I could have bought a Android, which you guys do IOS in order to _____ Apple and Android, but you could buy an Android for basically \$10.00 that does – American – that does everything, right?

Hendrick Sin: That's maybe is a very good view. And, anyways, China has lot of very easily. So that really growing very fast. So we see similar trends in Japan in the last few years because of infrastructure is very well –

- Tobin Smith:* Yes, the more speed, the more bandwidth in your hand, the more games you play. And the longer – now the average revenue per user, the ARPU for the social games is significantly – it's three or six times as much as the non.
- Hendrick Sin:* Yes.
- Tobin Smith:* And so social games becomes a competition. And when there's a competition, you wanna have the best weapons. You wanna have the best sword. You wanna have the best bazooka, for crying out loud. The Monkey Game is your number one game in China. What's the second most popular?
- Hendrick Sin:* Okay. We have a lot of games. We have 490 games.
- Tobin Smith:* That's amazing.
- Hendrick Sin:* So a lot of them –
- Tobin Smith:* That's why you're the Lord sixth of games in China. All right, 490 games.
- Hendrick Sin:* We try to be diversified. We try to give users more choices. So we do have many number one games. In the past five years, we always hit the top ten games with titles every year with a few titles. So for this year, I think there's new game called War Valley coming. It's beta testing now. It's going to have English version –
- Tobin Smith:* War Valley.
- Hendrick Sin:* Yes.
- Tobin Smith:* All right. Is this a fighting game?
- Hendrick Sin:* Again, role-play game, multiple people. And this game is we are going to have it in English version, so our friends in the US _____ can –
- Tobin Smith:* So I can get my ass kicked by someone in China while I'm playing – oh, that's perfect. All right. Now look at, this guy is a recovering investment banker for crying out loud, and he also is a Sanford guy. So how did a smart kid from Stanford get into mobile games? You guys are dominant in China. You're based in Hong Kong, but almost all your revenues are from the PRC?
- Hendrick Sin:* Yes, correct.

Tobin Smith: How'd that happen?

Hendrick Sin: Okay. I studied _____ science in my earlier educations, and I love technology, and at Stanford, we have a lot of success stories and always admired those –

Tobin Smith: You're an entrepreneur at heart. You're an entrepreneur at heart.

[Crosstalk]

Hendrick Sin: So I have been prior to founding this company, I have been doing investment banking for 13 years, where I learn a lot more about entrepreneurship from other success –

Tobin Smith: All right, I'm gonna stop you for a second 'cause we're running outta time. Here's a big issue. This company is certainly gonna have growth revenue, as you report, very soon, I guess 2012. They're selling at about a 7PE on trailing – on a forward, I bet you're selling for about five times. I'm just gonna make a guess. They're earnings. They're incredibly cheap, guys. This is a company that is in the second _____ growth industry, riding the wave of the mobile Internet, which is one in our big things.

They are a real American company with you're listening here, et cetera. So this a time that we don't always recommend Chinese companies, just because they're hard to figure out, so on and so forth. You're business not hard to figure out, right accountants, right lawyers, right people. New think since mobile Internet you wanna be the biggest space in the world, which is China. You wanna be in games. Chinese love to play games, for crying out loud.

Hendrick Sin: Yeah.

Tobin Smith: And so we think this is one of the biggest bargains in the space. The next big thing in mobile gaming is right here.

[End NBT - CHINA MOBILE GAMES - 2]

[End of Audio]