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## Interview with Vincent Tao from PPLive



**Adrian Bye:** So, today I'm now sitting with Vincent Tao from PPLive. I don't think that anyone who is listening to this is going to understand this model initially and so, just be prepared for some interesting things. I'll just say one thing to start off - 120 million users from a company you've never heard of in China. We'll save the details for later on in the interview. Vincent, can you maybe take it away first just by telling a bit about who you are.

**Vincent Tao:** Hey, everybody my name is Vincent Tao. Actually, it's a very interesting, I just moved from the United States to Shanghai, China about a month ago, and first time joined PPLive from Microsoft, and I took the CEO position at PPLive. I actually am quite impressed about PPLive, that's one of the reasons, maybe I will tell you a bit more about why I joined PPLive. I have been with Microsoft for the last five years, and before I came to Microsoft, I was the CEO and the founder of the company called Geo Tango. We actually built the product call Global View, and it's a 3D earth mapping technology. Many of you are probably not aware, it's actually two years ahead of Google Earth, and the company would get acquired by Microsoft. In 2005, I joined Bill Gates'

strategic project. I led that project called Virtual Earth. I think many of friends have used Microsoft product, Virtual Earth. Actually, I led the team, building everything from ground up, and now, it actually has a market share of 80% in the B to B market, compared to our competitors. In the B to C market, they still like Google Earth, very, very popular, but in the B to B market, Microsoft's Virtual Earth take that market share. Before I joined, I started my own company Geo Tango which is the start up company in Toronto. I actually was a Canadian Researcher/Professor in University. So, I had quite an interesting life myself. I was a professor and researcher. During my time in academia, I actually built about 14 technologies, licensed to the private sectors before I started my own company. I moved from China to Canada in 1995, and did my PhD work there and later on, I became a professor in Canada doing my teaching work, research work in the last 18 years before I started my company called Geo Tango. So, looking back, it's kind of an interesting life and being in the university as a professor before, and moving to build my company start for four years then joining Microsoft as one of the executives for the last five years. Actually, I have been thinking a lot about my next career step, I decided to come back to China and I joined the company PPLive as the CEO.

**Adrian Bye:** Cool. I'm interested to understand a little bit more about you. You grew up in Shanghai?

**Vincent Tao:** Yes, I grew up in Shanghai.

**Adrian Bye:** How old were you when you went to Canada?

**Vincent Tao:** That's 1995. So when I was almost 24 years old.

**Adrian Bye:** How long did you live in Canada?

**Vincent Tao:** About ten years.

**Adrian Bye:** Then you said that you went to Seattle.

**Vincent Tao:** Then moved to Seattle, yes.



**Adrian Bye:** I'm interested to understand why you're coming back to China.

**Vincent Tao:** It's fascinating and looking at my career side as a professor... actually, I was a professor called the Researcher Professor, actually the highest academic rank in the academia. So, I feel, I understand how that world is playing, and decided to start my own company as an entrepreneur. Being a start up is very interesting and very fascinating, too. A lot of challenges, but after I sold my company to Microsoft, people say "Hey, you have been a success," from an entrepreneur point of view but to me, I think that I just started, sort of leading me from the research world into the business world. So, at Microsoft, I would really be like making a lot of decisions and am actually responsible for the global product and the business plan. That got me reading and learning a lot about how the business, especially the large business, how you scale large business, how you manage a large team. I actually reported to Bill Gates on a monthly basis. That gave me a lot of learning curves as well and whenever you prepare things to present to The Bill. After that I feel "Hey, I still need more challenging work to do." One thing that actually started getting me excited about is China. Everybody knows China is growing fast and actually I find it that they really need a lot of experienced entrepreneurs or people who have knowledge about how to run a large business.

**Adrian Bye:** So, there's a market for people who have had a successful company already and are interested in moving to China, they could come in and run a start up that's ready to go to the next level?

**Vincent Tao:** That's right. Having been working with this large company, I understand how those large corporations are working. But in my career, I really love to do another kind of challenging work is maybe taking a company to IPO. For PPLive, the target set very clearly is to take the company from... PPLive is really not a start up. They are sort of in the early growth, middle growth stage. We have close to 200 employees, and with this kind of size, with this kind of revenue stream; I feel there is an opportunity for me to take the company to the next level, which to me is the IPO.

**Adrian Bye:** What about your family? You just moved your family through lots of cities?

**Vincent Tao:** That's actually a very good question. Of course, that's going to be some challenge for my family. Actually, my family now just came to join me a week ago from Seattle, just two months for vacation. It's school break time. But today, they are going to go back to take the fall term, but we have not decided yet when to move them back. Personally, I love them to join me as early as possible like next January sometime, but it can take some time for them to adapt, especially my kids to get used to this kind of environment.

**Adrian Bye:** So, you mentioned that you have an American family. Bringing them to China is going to be like knocking them off balance a bit.

**Vincent Tao:** Primarily, I think it's the kids. My wife is Chinese, so no problem, but the kids' side, it would be a little bit of a challenge for them.

**Adrian Bye:** How about you? How are you finding living in China? I mean you've only been here a month, you go through ups and downs, right, when you return to your own country?

**Vincent Tao:** Yes. But it's not that difficult for myself, and in fact in the last two years I was responsible for the Asian business at Microsoft. I was responsible for the Microsoft online services for the China, Japan, and Korea market. So, I spent about six months last year, actually living in China. So, myself, I don't think I have a problem terms to adapting to this kind of environment especially when you're born in China. You have it on the culture side, food wise, that's not an issue at all. Of course, personally, I'm prepared to commit myself and time and mind, I'm not going to suffer about all those stuff. You may have to give up a lot of things, but I think the opportunity is great for me to join the company at this stage.

**Adrian Bye:** So, now let's talk about the company then. Actually, one more question. You say you reported to Bill Gates once a month. What was he like to actually report to?

**Vincent Tao:** He's very determined and gets to the ground and the first thing that I can tell everyone is very interesting. The first meeting I spent a lot of time preparing really awesome PowerPoints.

**Adrian Bye:** And he didn't want to see it?

**Vincent Tao:** His PA called me, "Vincent, Bill Gates doesn't want to see the PowerPoint. Whatever you have done or what you are going to do, show me the demo. Show me the real demo thing rather than sort of flash fantastic PowerPoint. So basically that would sort of tell you, "Hey, he really wants to see things that you get to the ground, exactly what I was thinking, exactly what you are doing, rather than tell him things, sort of surface talking, points, visions or whatever, throw those stuff away. The second thing, and I think I remember, frankly that shocked me as well. At the first meeting, Bill asked me, "Hey, Vincent, show me your road map and your vision." I talked to Bill and said I want to build a team and I need to hire a lot of engineers, my head count requests, this is my headcounts. I want to build an incredible team here. Bill said, "No problem, Vincent, with Microsoft you can hire as many as you want, but remember there's a bottom line. We need \$1million revenue per head. You can hire one person just tell me that this guy can bring \$1million for the whole team. So, that actually gives you... you really have to think about whether the market size would be enough, and if the timing is good enough for you to really invest. It's not that something can not be done; it is basically the timing and the ROI, whether it is the right timing and the right investment to get what you want. So, the key I could tell you is how to maximize your investment, and do a return at \$1million per head kind of thing. This is actually very good. Those have been good lessons for me, even until now.

**Adrian Bye:** That's the two very powerful points. That's fascinating.

**Vincent Tao:** Very, very fascinating. Basically gets you thinking about either deeply second you must have a grand vision. Don't waste your time to do tiny things. Spend your time...

**Adrian Bye:** \$1 million per head, so at the cost per employee, and that makes sense, hire as many as you want as long as they can bring in \$1 million and show like a working demo. No messing around with PowerPoint at all or fluffy stuff. I like it.

**Vincent Tao:** So, those two points you can say, hey, he is incredible.

**Adrian Bye:** So, tell us about PPLive? So as I see, it's a company with a 120 million users that nobody has ever heard of is obviously a lot of...

**Vincent Tao:** Chinese, of course.

**Adrian Bye:** Is that a 120 million actively... like what a monthly active users?

**Vincent Tao:** Monthly active users, 35 million active users, and total installation based like downloading the software, it's a 120 million user base.

**Adrian Bye:** My understanding of the services is basically a service for peer-to-peer television. Is that an accurate summary or maybe you can tell us more?

**Vincent Tao:** Essentially, our definition is web-TV, if you will. It's online video aggregator. Like Hulu, many other online video companies in the United States. The telephone technology is based on the peer-to-peer, P2P technology so you can stream the huge, massive videos to a large audience base with very little cost. That is the key because everybody knows YouTube serves a lot of users, that's great, and the bandwidth has cost. What people probably are not aware of is actually about \$2million per day for YouTube. There's not such a company in the world except Google, I guess, even Microsoft would not be able to invest it, even to afford that kind of business because \$2million per day in terms of cost; it's a huge sort of capital investment. So, for this company because they're running the peer-to-peer and the cost on the bandwidth size is... probably you'll be amazed... it's actually about anywhere from 2-5% compared to other video companies, in terms of bandwidth cost.

**Adrian Bye:** 2-5% of the cost?

**Vincent Tao:** Yes, 2-5% cost of the bandwidth. A lot of people ask me, "Hey, why are you proposing a P2P company, the most successful P2P Technology Company is probably in China right now in the world. Looking at all the world, there's some P2P company doing some other stuff, but this company has been doing hugely successful, for two reasons. One, in China, the population is huge. When everybody go online, go watch a movie, go watch a TV, go watch those high resolution stuff, it will really absorb a lot of the bandwidth. The second, actually the bandwidth cost, the average cost in China is actually higher than the United States.

**Adrian Bye:** Oh really?

**Vincent Tao:** It's actually about 2 to 5 times more costly than the bandwidth cost in the United States. The third, the internet is not as great as the United States even if the broadband penetration is very high. I think it's about a 30% in terms of population compared to the US, which is like 70%. So, the internet infrastructure is not as smooth compared to the US. So, for these three reasons, the P2P works very fine in China.

**Adrian Bye:** It works around those sorts of problems?

**Vincent Tao:** Yes, those three problems.

**Adrian Bye:** So, as soon as I see P2P TV models, I haven't really played with them in depth...I do experiment with a lot of stuff but I haven't with those because my perception has always been that they're not going to work very well, if you're depending on other peers to download stuff, you're going to run into problems. Now, obviously, you've just shown me a demo before this now where you can select basically out of a lot of movies and select the ones that have the most users and the playing starts within 10 to 15 seconds. And we were able to track to a couple of minutes when we went into a movie, they haven't had time to buffer yet, and they caught up within about 5 seconds. So it works. I don't understand how it works. Can you maybe talk about it?



**Vincent Tao:** The P2P is... if I give people an example about how... because a lot of people have a perception, "Hey, P2P is piracy, downloading stuff, back to the Napster. But this is actually more like the Joost model. Joost used to work on this model. Skype is a P2P messenger in a sense, based on P2P. So, to give you a quick example about how the P2P works is like you are building... the bandwidth is like

building the transportation system. No matter how many you can build a freeway, highways, and building infrastructures right? Once you got into rush hours, your traffic will be jammed. There's no way for you, basically there's no way for you to build, and you would have a capital limitation.

**Adrian Bye:** That's what I get, but what I don't get is how you can quickly stream from users that are all around China. A movie is about a gigabyte in size, how do you stream a gigabyte worth of movie real time to all these guys?

**Vincent Tao:** This is all network resource matching. So, some time, when I explain what is P2P is actually called real time traffic rerouting system. So, once you get jammed, like through the freeway, actually, we quickly reroute those vehicles through secondary roads and the smaller streets and basically distribute those traffic from different nodes. So, in China, the P2P actually has to work based on your network effects somehow. So, you must have a huge amount of your seeds called P2P nodes, and of course the beauty is we have a huge population, 120 million users installation base. So, the user base is large. The network effect...

**Adrian Bye:** In it, it's really, really big, I get that. I am watching a movie like Dark Knight. If I were to watch that movie, which is a pretty big movie, and I want to track through to the last third of the movie, realistically, I think any mainstream big movie, that's very popular, how many users are watching that on any given time?

**Vincent Tao:** It actually it doesn't matter from all PPLive technology. So the way we actually handle it is people may consider the traditional P2P technology, while you're watching the movie you're sharing that movie bits to others.

**Adrian Bye:** But were talking about a gigabyte movie file.

**Vincent Tao:** So basically, for example, are you aware of CDN technology, the cache technology?

**Adrian Bye:** No.

**Vincent Tao:** The CDN? ACMA are the others.

**Adrian Bye:** Yes. Maybe the ACMA.

**Vincent Tao:** ACMA base is the CDN, it's based on cache. What ACMA does is actually they put a lot of servers. Those servers will function as the cache. So, once the content has been watched through ACMA servers, ACMA will cache some part of the contents.

**Adrian Bye:** So, you're actually caching parts of the movie.

**Vincent Tao:** We actually cache parts of the movie. Actually, some are based on your machine; some are based on the other machine. Everybody's machine once they join the network, they become part of your cache. The cache management. But that cache is a swap. First, what people don't know is actually it's very small... just like you're using Internet Explorer, actually everyone uses it.

**Adrian Bye:** I think you have a point there. If someone is watching a movie on their computer they're not going to be probably using their computers, so in fact you can take all of their internet connection, and it's not really going to affect them and so you can do a lot of caching for other people. Is that the kind of principle behind it? Because while I'm using my computer and you're filling it up with bandwidth from... I'm suddenly serving to 500 other users at the same time. If I'm actually using it at the same time, that's pretty annoying. But when watching a movie I'm probably not using my computer, I'm probably watching the movie.

**Vincent Tao:** Once you're watching a movie, once you start to use the PPLive software to watch the movie, then we start to use your cache. So, basically, because we have a strong network effect, and there's a lot of user base, so at any point we probably can find at least 25 to 100 people watching, at the same point, there's a lot of people watching the movies.

**Adrian Bye:** At the same point? Or more or less at the same point in the movie, there will be 25 to 30...

**Vincent Tao:** No, it doesn't matter. Because once you've been watching a movie, some piece will be cached at your machine. So, that piece of cache whether you're watching it or not will be transmitted to the others will be shared with others. So you don't have to use... we basically use your machine as a cache instead of use your machine as some other P2P technology.

**Adrian Bye:** But let's say I've watched the movie and I've been watching it for an hour or an hour and a half and it's got ten minutes left. Does that mean I have a full hour and a half of the movie cached on my machine that I'm sending up to other people?

**Vincent Tao:** No, no, no. Your cache is very small. So, on your side, you actually can... default is say 500 megabyte. One movie is probably more than that. So, on your machine you might store many, many movie bits, distributed by the system. So you have many, many bits on your machine than everybody else has all kinds of bits on their machine. So, basically it's similar to a cookie sort of technology. You actually have a lot of bits stocked on your machine.

**Adrian Bye:** But the problem is when moving movies around with limited bandwidth, the average user... how fast is the DSL connection... 100kbps, 200kbps, at most?

**Vincent Tao:** Oh, 1MB, usually.

**Adrian Bye:** The average user in China?

**Vincent Tao:** ...uses 1MB, yes.

**Adrian Bye:** So, they have a reasonably fast internet.

**Vincent Tao:** Reasonably, yes, acceptable.

**Adrian Bye:** Where I live in the Dominican Republic, most people don't have that. They have 256K. So, in fact if you're saying the average user here has 1MBPS, that's decently fast.

**Vincent Tao:** Also of course, if you're looking at it the P2P technology, we have the super nodes and the ordinary nodes. Some, we got super nodes meaning they actually have much better network bandwidth. So, those nodes probably are streaming more stuff than some others who has less bandwidth.

**Adrian Bye:** I mean I have like one of the fastest connections you can get in the country as a home user, 5MBPS. That's the fastest. And so that's actually five times bigger than the average of what people in China have.

**Vincent Tao:** So, basically as I said, it's a real time re-routing system. So, basically, we are looking at where's the jam? If there is a jam, we are actually looking for the second road or other sort of dispatches, and you've always real time manage all those different nodes and share that content among the network.

**Adrian Bye:** How is that different from the one that Joost is doing?

**Vincent Tao:** Frankly, and we actually looked at the Joost technology. Their technology isn't to the point that I feel mature enough compared to PPLive's own technology. Even at Microsoft, we have a lot of internal study about the PPLive technology. PPLive technology was awarded even last year in the ASEAN top conferences and the Google, Microsoft used to have a word. PPLive was one of the few Chinese companies whose internet technology got awarded internationally because of the P2P technology and they've been showing very scalable in terms of supporting huge amount of users, and it shows how reliably they can manage those video streams among the millions of machines. You have to tune your system and it's not something you can do... and the tuning side would require a lot of R&D and engineering work to do.

**Adrian Bye:** So, that brings up an interesting point. There are obviously some real smart guys who have done that. You've been here for a month. You're in as the flashy new CEO from Microsoft. What happened to the old founders?

**Vincent Tao:** The founder works with me as the core leadership. So, it's more like a Microsoft and the Google model. Bill Gates and Steve Ballmer, Eric Schmidt and Larry Page who were co-founders. So, the founder of this company, he is a really very technology guy, very smart guy. He quit his master program, he finished his first year master program and then quit it because he invented the technology at that time. He jumped out and started the company. So, he never finished his master degree. It's quite an interesting story like Bill Gates. And also his name is called Bill. He respected The Bill a lot and he goes to his office and you can find a lot of Bill Gates photos there. So somehow we got the connections myself with Bill as a person. Wow! This is Bill Gates, this is Bill Yao, that is actually his last name. So, we are actually doing the core leadership here. This probably sounds like the first case in China, i.e. a core leadership running the company. One person may make mistakes. With two, your brand I think, you have at least the possibility of making a mistake is getting less.

**Adrian Bye:** So, you guys are practically, you are CEO and he is COO?

**Vincent Tao:** He is the President. I'm the COO.

**Adrian Bye:** Are there other guys or you two guys basically running the company?

**Vincent Tao:** We're the most key decision makers. Of course, we have the senior management team, we have CFO, CTO, and many other incredible, senior management executives...

**Adrian Bye:** That sounds like a good combination because you're Chinese born but you understand US management practices, he is a Chinese local, but strong in technology. So, I mean, a good team like a good fit.

**Vincent Tao:** Sounds right. Yes.

**Adrian Bye:** I'm interested, just to back track a little bit, on you obviously got a strong background. I imagine you had choices of a lot of companies you could have come and worked at, to take over and manage here in Shanghai. Why did you pick PPLive? How did you evaluate the options that you had? What were the other kinds of options did you have?

**Vincent Tao:** Actually, before I stepped into PPLive, there were two offers as a CEO in the US, and a few offers for COO in China. But I finally, I decided to go with PPLive. I think there are three reasons why I joined PPLive.





The number one reason I think is it's still looking at internet market. Even at Microsoft I understand very well that last year the highest gross in the internet is online video advertising. Looking at the internet, I defined myself with three waves in the internet world. Most internet companies are taking advertising as the primary business model. Looking at advertising types, there are three major types. The first one is banner ads. Basically, the advertising, the internet company is taking the advertising from the traditional magazines and newspapers to the internet. That came to the pool, different websites showing the banner ads. So, that's the first wave. The second wave is the search. What search does is actually what we call the yellow page ads, classified ads. Those are long tail ads, and that have been taken over by the internet with the second wave. The third wave, to me personally, I feel if you're looking at the old advertising space, the largest part is actually TV ads, video ads. Because video type. Not a banner. Not a text. It's actually video ads, and the video ads ultimately will be moving, at least some part of it will be moving online. So, you need to build an internet media to accommodate those video ads. And online video, which is a COBOL type of model, so web TV, I feel that's the more natural...

**Adrian Bye:** I get your reason for this, but why did you choose this company over another five in Shanghai?

**Vincent Tao:** Yes. That's the main reason because of the major direction I find is incredible. The second one is, in order to do well for the internet video...and this is something amazing... I don't know whether the people have heard about the entry last year in the United States and the video, and the bandwidth usage by the video is equal to the entire bandwidth in 2005 of the United States. So, it's all compiled. By 2010, as predicted by the CTO of AT&T, 80% of the bandwidth will be occupied by the video users online. Microsoft claimed our own system will not be able to accommodate the video usage in the next three years. All the data and the capacities.

**Adrian Bye:** So, basically, you feel there is a business model behind it. There is growth behind it and the need. I understand like the selling points of the company. I'm more interested in was it just the company technology? Was there something about it or the fact that it was located in Shanghai? The team that was here? You're a guy with a lot of options, right?

**Vincent Tao:** I think that the first two reasons I said is online video and the second is because the company is running P2P. P2P is I think it's a killer app to solve the problem of the video, the cost of supporting video online. Because you can't have a lot of traffic like in YouTube and at the same time you actually, your cost curve is increasing, too. Where you have user traffic you have a cost curve. But how do you actually balance that and build a sustainable business, a profitable business? You need to have traffic at the same time you actually need to lower your cost of the traffic. So, this actually is how P2P works and has recognized by the technology company's PPLive, there are very few Chinese companies being recognized as a leader in the technology front.

**Adrian Bye:** So, I think more important thing than being recognized is the fact that you have a big user base right? To me that's the kind of recognition.

**Vincent Tao:** For China, yes, for China.

**Adrian Bye:** I want to talk about that. So on to

**Vincent Tao:** So, Shanghai I actually I think is not the top of my list.

**Adrian Bye:** Oh, really. Where would you be in? What's your number one city?

**Vincent Tao:** Could be others, if I have a good opportunity I can move around. Not really because it's Shanghai.

**Adrian Bye:** So, the one big question is you're running all these TVs, all these movies. It's all totally illegal in the United States, right? The copy right would be a huge problem but here in China it's totally fine. So...

**Vincent Tao:** It's not totally fine, I don't think...

**Adrian Bye:** Here in China it's not?

**Vincent Tao:** No, of course not.

**Adrian Bye:** I mean, tell us, what is the legal status quo? I meant to say you're in some kind of gray area.

**Vincent Tao:** It is gray. It's a bit gray, of course, but not as clear as in the United States. In China because, content aside, most of Chinese content is State owned. So, in terms of that and we have to partner with all those major company providers. That's what we have to do in China and that's not gray. That's actually very clear. The gray area is the foreign content like content from the US or from other places. One is those content do not have a lending right in China. Meaning even those movies you can not actually... for example like CNN. CNN you probably can see CNN in selected hotels, because there's a lot of international foreigners living there. Not a lot actually shown on the cable TV with probably Chinese audience. So, for internet, right now, it's actually for those like that one... the CNN lines they can not deliver the CNN.

**Adrian Bye:** So, you guys actually block certain types of TV from being shown? So you can actually block CNN through your servers, can you?

**Vincent Tao:** Actually, we're blocked right now because that's by law. We can not...

**Adrian Bye:** So you only allow stuff that can legally be broadcast in China?

**Vincent Tao:** That's right. Yes. And in those gray areas this is most, some of the movies, especially US movies. They never get the chance to get into China, to export into China.

**Adrian Bye:** And so those are actually bought.

**Vincent Tao:** Those actually because they don't have a right and the most Chinese audience would have wanted it. And for China right now we're actually okay for those movies.

**Adrian Bye:** Right.

**Vincent Tao:** That's the gray area.

**Adrian Bye:** So, the US company, there is not much they can do, when you're a Chinese company, what are they going to do, sue you in China?

**Vincent Tao:** Because they don't have a lending right in China so they even can not sue it. And in China, those areas are defined as gray. I think those are going to be changed at some point. So, I think, what is going to

work really well this time too, and I saw it myself, is building good relationships. They even want to sell those movies in China. But they cannot because they don't have the rights to even distribute that content in China. So the grey area is sort of a low mass control. Government could now control, the content provider will not be able to control it.

**Adrian Bye:** So, how much content are you actually blocking? You're blocking CNN. How much TV channels, movies, and things like that do you actually stop? Do you have an idea of those numbers? I know you're just new at the company and I'm actually asking a lot of...

**Vincent Tao:** Actually most of our, I think 95% of the content is China content. So there's Chinese made content here, which can be distributed legally.

**Adrian Bye:** So it's legally redistributed within the country?



**Vincent Tao:** So the five percent as I was saying is one of the gray things which those ones they did not have distribution rights, we call the lending right. Meaning, those in China that you can not show it or you are not, or is not on the blacklist. For example, CNN is on the blacklist. Once it's on the blacklist, that mean we can not show all of them. The ones in the blacklist we can not show them. But there are ones that are not on

the blacklist, and there actually has no regulations that can or can not. Those are the gray areas. You can or can not. So those ones, that's 5%.

**Adrian Bye:** So, that's 5%, like 80% of the viewer ship?

**Vincent Tao:** Not that much, but I will say, yes, they do maybe about 40-50% because that's still like hot stuff, right?

**Adrian Bye:** So, what happens when a new movie comes out? Can I put a movie on PPLive or how does a new movie get on it?

**Vincent Tao:** There's a difference. PPLive is different, it's more like a Hulu model. So, we do have a large editorial team to do the cleaning up, do the editorial thing.

**Adrian Bye:** And you put Chinese sub-titles on them all, too.

**Vincent Tao:** That's right. Yes.

**Adrian Bye:** So, they are in English?

**Vincent Tao:** In English.

**Adrian Bye:** So, I can download the client and use it as long as I can work my way through the UI?

**Vincent Tao:** Yes, if you're talking about the 5% of gray things, they actually came with English, by the way we have the subtitles in Chinese. Only subtitles in Chinese. So, you actually can watch it.

**Adrian Bye:** But I'm in Dominican Republic.

**Vincent Tao:** But we block it. If it's international we block it.

**Adrian Bye:** So, for US, is it blocked also? What about Dominican Republic?

**Vincent Tao:** I think it's blocked. All international is blocked, unfortunately. Because you can watch all Chinese movies international, no problem, that's not blocked, but for the gray stuff...

**Adrian Bye:** So, that's how you're keeping it so you won't get into too much trouble with the US companies.

**Vincent Tao:** With other content provider. That's why we work really well with all those content providers. We do not de-validate their rights.

**Adrian Bye:** Interesting. I want to ask the big question, which to me is the big question anyway, is how do you think are you going to monetize this?

**Vincent Tao:** Currently, primarily it's the video ads, because, as I said, the video ads could be the next big thing for internet companies. And after portal, after search, I think the video ads and we do see the advertisers start to appreciate the measurability of online media because they spend a lot of money to build those video ads and they're having a star, they have a planning, all kind of market plan to build that video ads that last 30 seconds, and they love for viewer to view it as more as possible. For the younger generation of China or probably the most powerful in terms of purchase power, they spend on the internet more, and have more than the other categories. So, we see there, they're shifting from the video ads budget, from TV to the internet.

**Adrian Bye:** What would it a video ad look like? Am I going to be watching every forty minutes, there's going to be ten or twenty ads like in the US? Like how far are you able to push ads versus content?

**Vincent Tao:** It's actually much more claim than the TV ads, and usually for the TV, if you remember that between two programs, they might have like two or three or four ads in between. For us, we actually show one ad between each program and we usually do is a 15 second video ads. We'd prefer 15 seconds rather than thirty seconds. So, fifteen seconds video ads. In the standard TV video ads is actually 30 seconds to one minute. So we're actually shorter than the video ads.

**Adrian Bye:** How frequent?

**Vincent Tao:** Currently, we only do the pre-roll. We do not release the middle-roll. Middle-roll basically is some sort of music on video ads, we did not show that. We only show the pre-roll video ads. I think the reason is first, we want to incrementally get people to get sort of used to this kind of ads without getting frustrated at all. I'm sort of watching the same thing like in TV.

**Adrian Bye:** I guess one of the risks you have in this model is if you'd run a lot of advertising, you're going to get, "Screw this, I'm just going to download this myself and just watch without ads." So there's a balance right?

**Vincent Tao:** Yes. Downloading takes a lot of time. People really want convenience. For the internet users the most important is convenience. They just want to click and start watching it. That's why we've been very careful in terms of adding ads into the video stream. Currently we only do the pre-roll at the moment.

**Adrian Bye:** I guess you can follow the same models as Hulu. Hulu has made it work. You can do the same as Hulu right?

**Vincent Tao:** Right, very much so. We actually are trying to learn a lot of things that have been done on other sites like Hulu. But the China audience are very different. That's something actually I want to partner with Chinese company like my founder. I welcome the scheme because I feel that the Chinese audience in terms of the user behavior can be very different from others, you know, in other side of the world, in terms of the types or the format of the task could be different.

**Adrian Bye:** I mean, I guess I just have to ask, do you have visions of this going international. I mean this is the company that could become the Google of TV - is that kind of your intention?

**Vincent Tao:** Yes. That's one of the reasons my next target is I really want to build a Chinese company to be in international space. That's a feel, I have my experience, and my knowledge and it can help the Chinese company turn international. There's a lot of successful Chinese companies, they only do well in the Chinese space, so my vision is really bring the company to the next stage, to the international. In fact, we're doing that right now. I'll be back to the US in mid August and I'll be meeting with many other kind of potential partners. I hope we actually can start to even to kind of copy our model, share our experiences, special technology, working with many other partners.

**Adrian Bye:** From this trip, just an aside for the readers: one of the things that I've seen in China is it's like a crazy scientist lab of business models being tested very cheaply. I had lunch today with a guy doing 4 million unique a month was the number and they've got fifteen employees and they are spending just \$13,000 a month. The efficiency of models like that and I imagined that PPLive must have similar, obviously larger but similar sort of efficiencies are insane. You get to be so cost effective that it's going to be difficult for US companies to compete with the kind of cost structure that you can put in place. Am I incorrect?

**Vincent Tao:** Yes. Those actually one of the reason I think you did not ask me why I moved back to China. I have the choices. Either stay in the United States and either starting my own company or join other company as the COO. When I looked at the competition, the competition has really changed in the United States. The first, for technology based company. China used to be considered as sort of a labor power. But now it's actually, the power is more of knowledge workers, and the huge... day to day 600,000 new engineers graduating from university, in the United States, we probably have like ¼ of it and even ¼ of that even less than that when Microsoft number will look at. So, that huge amount of those engineers, they're smart and they work hard. Not like 9 to 5 guys, you're starting to enjoy life. Everybody really wants to make something

happen. So there's a momentum of this culture right now. So first, we have a really strong kind of I would say, knowledge infrastructure. Very strong. The second, the capital infrastructure. The first, knowledge by people. Second the capital infrastructure. In China it's actually something you can't imagine. The valuation of Chinese companies is higher than the companies in Silicon Valley.

**Adrian Bye:** It's higher in China...

**Vincent Tao:** It's higher in China in terms of valuation of the company. If you start a company like, Vincent tomorrow I work with five guys, I could get 5 million US dollars no problem. In the US, it's very rare you can actually get 5 million dollars. In China, valuations are high because many of those start up when they actually they're goal now is to go to NASDAQ for IPO, where you have seen all kinds of company like Baidu. Baidu is making 350 million US dollars last year. The valuation is 8 billion company, but they only need to make a small amount of money but the valuation is... Baidu I think it's about 2-3 times in terms of valuation higher than Google. In terms of valuation. Another Chinese successful company like Ali Baba, you've heard about it and the Tencent. Valuation still on the market? 50% or fifty.

**Adrian Bye:** So, why is Baidu that much higher? Is it just because there's that much growth pressed into China? Or is there a bubble?

**Vincent Tao:** It is growth, because people look at the growth of those Chinese companies. They're still small but the country internal demand is growing crazy. Probably in China you find that, when I was in Shanghai months ago we had the second year international vehicle festival, selling cars and stuff. The first day, Ferrari, they sold fifty Ferrari in the first day. It never happened in the world and anywhere else. And currently, 50% of luxury goods like Rolex and those watches, 50% of luxury goods are sold in China. China basically now occupies 50% although they're only small percentage of those rich guys. But they just have incredible buying power to get a whole economy to boost. Of course China has a really bubbling economy these days and growth ratio is still probably going to keep at two digits at this moment. So, the potential growth is still there. It's not just for 5 years, but probably 10 years. So that's why the valuation of the Chinese company in terms of IPO is always higher, because they have much longer runway for them to grow. For many companies in the United States, we already can see either you'd have been dominated and that is the exact market size you would get, you can see the end of it. But China, you just see whole. The whole notion of the future growth is unpredictable and that's incredible. So that's one of the reasons. I think that's the key reason why I moved back to China. I feel, for this time, for me, maybe being a part of a Chinese company can grow the company much bigger because I have a capital infrastructure, I have people infrastructure. What else I need is of course is management, which I can bring to the company with me.

**Adrian Bye:** And by the way you happen to be Chinese.

**Vincent Tao:** I happen to be Chinese. So that's... that's an advantage and I think I should take and really can leverage in my experience as a Chinese and a person who has overseas experiences.

**Adrian Bye:** One thing we haven't talked about and we do need to is like the funding of the company and the revenues of the company and that sort of stuff. Now, I know you're going to tell me these things you can't tell me. So I'll just ask you to tell me you tell me what you don't want to tell me. Can you tell me about how did the company get started and how did it get to where it is now. The founding guys didn't just slice off their money, did they? Did they go and develop it themselves for a while and go and raise some rounds?

**Vincent Tao:** The Company is barely four years old. Last month, the first thing I joined in the company, is actually the one perfect party is celebrating the fourth year birthday of the company. So, just four years.

**Adrian Bye:** Four years right?

**Vincent Tao:** We're on our fifth year. They started in 2004, at that time they were just a whole bunch of university students; they actually got their first venture capital money, probably around 150,000 US dollars.

**Adrian Bye:** So, it was like an angel round, basically?

**Vincent Tao:** It's actually a VC but very small VC money. They just found that those several students they might be doing something interesting. And the person that did this, at the time, they are university students, they really want to watch the NBA, the basketball and they could not find it. They don't have a television in the university. So, he programmed it and do the live broadcasting of the TV, so they started to distribute within the campus. So, two months later, they got this first 150,000 dollars US, but actually incredibly, in three months the traffic have grown 500%, almost all the campus university students started using the software, like facebook and those sort of stuff in the university. So, they actually quit university, and they actually moved from Wuhan to Shanghai. Just to be locating in another city, in the center of China. So, they moved to Shanghai because they think in Shanghai you can attract more talents and should be able to get more capital money. So, they've been identified by the blue round and the DFJ. Those VCs. So, in 2007, they raised about 25 million US dollars. That was the last round of the company. For the last NBA, you heard about Yao Ming, that is one of the Chinese heroes. Ming Yao?

**Adrian Bye:** I'm sorry what do you mean by NBA? I don't know.

**Vincent Tao:** NBA. The basketball. There is one Chinese hero, he is actually the NBA player called Ming Yao, and he is actually in the team. So, the last time we estimated nearly 1/3 of the Chinese people are watching NBA from PPLive.

**Adrian Bye:** One third of your users?

**Vincent Tao:** One third of Chinese users. Chinese audience.

**Adrian Bye:** Talk about total numbers like how many individuals?

**Vincent Tao:** The total is about, those that are watching the live broadcasting of NBA games, about 6 million.

**Adrian Bye:** You had about 6 million?

**Vincent Tao:** The whole 6 million in China at that date.

**Adrian Bye:** So you had 6 million people simultaneously watching?

**Vincent Tao:** That's about 1/3 of the Chinese total audience who are actually watching that NBA games. Some are watching from TVs, some watching from software.

**Adrian Bye:** I mean it would seem like you will become like ABC or CBS right? You got to become like a TV network. I mean you are. You really will become. Is there a reason why you wouldn't become one?

**Vincent Tao:** We'd probably become one but right now we're still sort of an aggregator. We're like distributing.

**Adrian Bye:** So that's what ABC is.

**Vincent Tao:** Yes, it's more like aggregator. We're not producing our own content.

**Adrian Bye:** You don't have to right? You can just be a network?

**Vincent Tao:** Yes.

**Adrian Bye:** I guess I'm not telling you anything you don't know.

**Vincent Tao:** So, let's talk about what the company's doing. The company is doing and we're actually just, after I joined, I started to hire more people and we're nearly 200 right now. Probably by the end of the year we need to increase at least 1/3 of it. So we're hiring more.

**Adrian Bye:** So you have a lot more capital? Are you going to raise more money? Or you got plenty

**Vincent Tao:** At the moment, we will raise more money right now because I take a more aggressive approach to grow the company. I found out they have a very good foundation. The company has not yet break even, but based on the capital, based on the revenue stream by now, actually, they can get break even this year. But I purposely postponed the break even time because I want to invest more. I don't think that you need to break even too early.

**Adrian Bye:** And why is that? So help me understand why would you not focus on figuring out how to break monetization more right now so that you can monetize and grow the company naturally, because there might be an explosive way to monetize the company now, so that you don't need to go and raise capital.

**Vincent Tao:** That's actually a good question. It's not about not investing on monetization. A lot of capital that I would raise would be used to invest in marketing, in expanding our sales team and our sales force, and even expand it to some international sales as well. So, really, it is one focusing on the revenue side, the other is focusing on the technology, the platform side. So, the capital we're raising is actually for two purposes, revenue as well as R&D investment. Because I feel the company has a unique asset in terms of its technology. And that's something people would have a lasting value down the road.

**Adrian Bye:** If you figured out monetization now that value doesn't go away.

**Vincent Tao:** When you invest a lot in terms of monetization, as I said it is the video ads monetization. It's like stock market. The growth ratio of video advertising is growing very fast. It's the highest among any advertising types, like the banner ads, social ads, email ads, whatever, video ads grows highest. We are able to enjoy that highest growth ratio so revenue growth is actually above 3 digits, year by year; over three digits. So, that revenue stream is essentially going well and that's why we have no problem in terms of getting the company to the break even point.



**Adrian Bye:** Sometimes, on the net, some of the twists will like triple your revenues even more, and then some they just like take off and then you don't need money. I don't understand why you wouldn't try and find a way to monetize your site now rather than going out and raising it.

**Vincent Tao:** I think that this company still need to ...it's still not huge company. It still need a lot more work to do and on the management side, on the process side, especially on the R&D part of it, in terms of getting technology much more strong. For example, we do have clients requesting to license technology for such region. Our system is still not actually enough in terms of providing APIs, everything, a ready, box approach and giving people to use it. We actually can use it internally and in order to expand our network, I feel that we need to offer our partners the same technology so we would be able to use and sort of offering the same business in the other parts of the world. So, there's still a lot of work to do with getting the company into shape. One, as you said, we can sort of leverage our own revenue stream and invest through our revenue to make that work. The other of course, we use external capital to boost this growth. I'm actually taking the latter approach; because I feel that first we have no problem to get some capital. With the right valuation, you could move the company much quicker. Even now, we're considering some possible merger and acquisition. Actually, with Microsoft, I was personally involved with 11 acquisition deals.

**Adrian Bye:** So you think PPLive can be acquired by Microsoft?

**Vincent Tao:** I mean we're looking at acquiring other companies not selling the company at the moment. So, we're getting companies to grow the company much quicker, because we still need more capital to grow into a stage that we actually can really move into some other international markets.

**Adrian Bye:** We're pretty much out of time, is there anything that you want to talk about that we haven't covered?

**Vincent Tao:** I think you've covered it really nicely, covered all the bases and certainly with this interview, I'd be happy to make more friends and be happy to share the experience. I'm still learning about how these companies are doing at this moment, but I have my own road map and certainly I'm on my next stage is moving the company to the United States, and hopefully we'll have more friends and partners who'd be interested in working with us.

**Adrian Bye:** You mean you're going to move the actual location of the company to the US? You're going to open up an office in the US?

**Vincent Tao:** Yes.

**Adrian Bye:** Okay. Cool. Thank you so much for your time.

**Vincent Tao:** Alright. I enjoyed it.