

Transcript of
Takung Art Co., Ltd.
Investor Conference Call
March 30, 2017

OPERATOR: Hello, and welcome to Takung Art Company's conference call. Your host this morning is Chief Financial Officer Mr. Leslie Chow. At the request of Takung, today's call is being recorded and will be available for replay on Takung's corporate website: takungart.com. Through midnight, April 6, 2017, this recording will also be available by phone at 877-481-4010 for domestic callers, and 919-882-2331 for international callers, using conference ID# 10302. I would like to now inform all parties that your lines have been placed in a listen-only mode until the question-and-answer segment of this call begins. To ask a question in that segment, you will receive instructions from the operator. At this point, I would like to turn the call over to Mr. Rick Eisenberg, Managing Director of Public Relations with Asia IR-PR.

RICK: Thank you, operator. And thanks, everyone, for joining us on this call. Before we begin, I'd like to read you our Forward Looking Statements provision. "During today's conference call, company representatives may make forward-looking statements. Any statements made in this presentation about future operating results or other future events are forward-looking statements

under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Please know that actual results achieved by the company may differ materially from such forward-looking statements. A discussion of factors that could cause such differences appears in the Risk Factors sections of the company's 10-K."

And now, Takung's CFO, Mr. Leslie Chow, will review the company's 2016 highlights and also discuss some of Takung's new opportunities for growth. After he finishes, he will be answering your questions. With that, I'd like to turn the call over to Leslie.

LESLIE: Thank you, Rick. We are pleased to welcome you to Takung's first earnings call since the stock's recent uplisting to the New York Stock Exchange MKT. As a result of joining the NYSE, we're already seeing our shares traded with greater volume. And, the Takung brand is strengthened, which should help attract even more users to our shared art trading platform and advance our ability to negotiate deals with major brands around the world.

I'm happy to report that 2016 was a big year for Takung. As our trading platform grew in popularity, we took major steps to expand operations and strengthen our infrastructure. For example, we opened two new offices - in

Tianjin and Hangzhou - and increased our marketing and R&D teams by 36 employees. We implemented a new incentive program that compensates art agents who bring new participants onto our trading platform, and offers flat trading fees or reduced commissions to many active traders. As a result of these moves, the number of traders on our platform has nearly reached the 100,000 mark – more than triple the total at the end of 2015. Secondly, total 2016 trading transactions grew to \$9.37 *billion* US dollars – four times their total in 2015. And thanks to this improved trading liquidity, in 2016 we were able to add 132 new artwork listings to our trading platform, compared with only 43 in 2015, thus generating listing commissions and management fees of \$12.68 million in 2016, versus only \$4.95 million in 2015. And the best news is that, so far in 2017, we are seeing a continuation of all these positive trends.

Now to the financial highlights of 2016. We had a 69% growth in revenue year over year to \$19.1M, with net income increasing by 17% to \$6.4M. Our cash balance increased by 24% to \$13.4M, and customer deposits, which shows as restricted cash on our balance sheet, increased by 34% to \$21.7M. Our gross profit margin in 2016 remained extremely high at 94.1%, compared to 92.9% in 2015. Our net profit margin, however, was 33 percent in 2016 vs. 48 percent in 2015. This decrease was due to Takung devoting the resources to create

greater growth in the future. For example, salary expense increased threefold because we nearly tripled our headcount to acquire trained research and sales personnel. We discontinued sub-contracting our R&D work to third-parties and instead built an in-house R&D team of 30 specialists committed to delivering new products and services. We doubled the size of our marketing department and stepped up efforts to promote our platform and grow our user base, causing selling expenses to increase by 289% to \$2.3M USD. And we engaged the services of consultants to help us with our uplisting to NYSE, increasing our stock-based compensation 175% to \$865K. Each of these expenses, of course, had an impact on our profitability – but they were each incurred to help us accomplish three major objectives: 1) expand our company’s ability to attract new traders to our platform, 2) expand the pipeline for new listings to our platform, and 3) increase our capacity to develop and roll out new and attractive products and services. And to who are we marketing our products and services? The answer: China’s growing middle class.

According to The Economist magazine, as of last summer, China’s middle class comprised about 225 million people – the majority of whom could not participate in China’s great art boom of the past decade because they simply could not afford the high cost of buying a single piece of fine art. But thanks to

Takung, most of these consumers – for the very first time – *can* afford to participate in the fine art market by buying *units* of fine art pieces. And this group is growing rapidly: According to a new study by the leading consulting firm, McKinsey & Company, within five years China's middle class is expected to grow to 500 million people – and that creates a lot more buying power for investments like fine art.

Takung's goal is to attract at least one percent, about 5 million members of China's middle class, to join our platform by the year 2022. Given that our platform has already proven its appeal – and that most of its pieces have appreciated nicely in value – we believe that attracting five million users is a reasonable objective. To accomplish this goal, we'll of course need to keep introducing our traders to artworks that excite them and induce them to trade – but we also plan to offer these traders additional products and services. For example, we are now beta-testing a new e-commerce platform called Takung Online – a product that will enable artists to sell *whole* works of art. Just as with our *shared* art ownership platform, we will be targeting Takung Online primarily to middle class consumers in the PRC. The price range for items on Takung Online will therefore be affordable -- ranging from about a few hundred US dollars to a few thousand US dollars. Takung Online already has about 85

artists and 900 artworks on its platform, and we are planning its official launch in the near future.

We are also looking to source new categories of products to list on our platform and enhance Takung's brand recognition by collaborating with well-known luxury brand names, primarily in China. These deals would be designed to attract new groups of traders to our platform, and, of course, new revenue to Takung.

In conclusion, we believe that 2016 has been both a successful year for Takung financially, and also a year in which we laid the groundwork for new products and services that can really add to our top and bottom line performance. With that, I am happy take your questions.

QUESTIONS: AVAILABLE on AUDIO REPLAY

LESLIE: On behalf of our CEO, Mike Xiao and our entire management team, I'd like to thank all of you – including our loyal shareholders -- for coming onto this morning's call. If you have any further questions for us, please feel free to email me at leslie.chow@takungae.com. Again, that's

leslie.chow@takungae.com. Thanks again, and we look forward to sharing more good news with you going forward.