China Internet Sector

Research Analysts

Dick Wei
852 2101 7339
dick.wei@credit-suisse.com

Evan Zhou
852 2101 6745
evan.zhou@credit-suisse.com

Jialong Shi
852 2101 7437
jialong.shi@credit-suisse.com

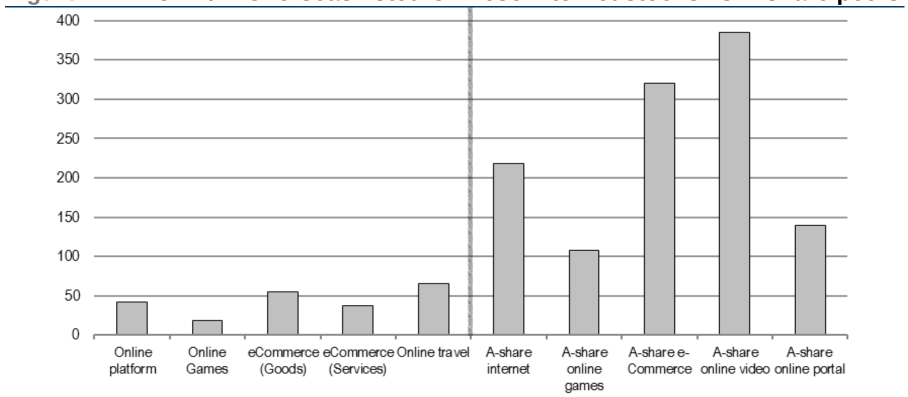
Contribution by
Archibald Pei

The sections from pages 15-17 and 19-21 are contributed by Archibald Pei.

THEME

China ADRs going back home?

Figure 1: **FY15E P/E–Overseas listed Chinese internet stocks vs A-share peers**

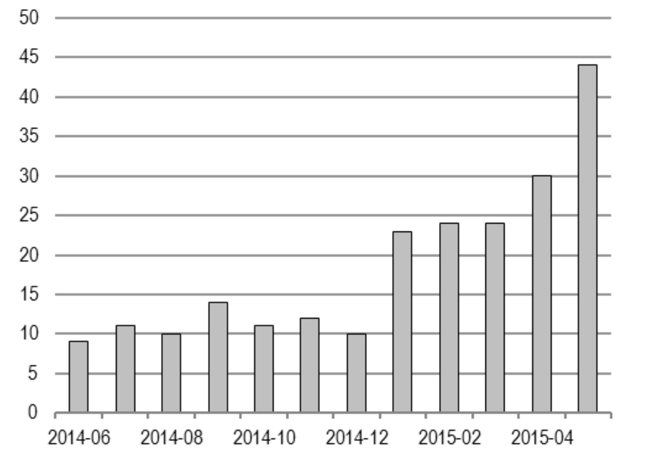


Source: Company data, Wind, Credit Suisse estimates

- **Privatisation for short-term gain?** So far in 2015, seven China ADRs have received "Going Private" proposals, with presumptions that these companies would relist in the A-share market at a higher multiple (Hong Kong market unlikely, given profitability requirements). A-share relisting helps companies tap into lower cost capital (assuming high market P/E to stay), however, with the A-share market not differentiating good- and low-quality companies (on valuation basis), management may not focus on the long-term success of a company.
- **Other ways of A-share listing possible in the future.** Currently, there are two ways for ADRs to list in China: <u>(1) tear down the VIE (variable interest entity) structure and re-IPO, (2) tear down the VIE structure and backdoor listing</u>. However, a full tear-down of VIE and relisting / backdoor listing involve high time and financial cost. With recent regulatory comments and development, we believe dual listing, particularly for large-cap ADRs, may be possible in the future: <u>(3) Dual-listing: A-share IPO as an offshore company, (4) Dual-listing: A-share IPO as an onshore company.</u>
- **More changes to come**. The A-share market is transforming itself to make overall listing process easier. "Registration System", "Strategic Emerging Board", and "Foreign Investment Laws" could make ADR listing in China easier. However, little details and the timing of the changes are available.
- **ADR valuation to benefit.** Beyond full-company listing in the A-share market, asset spin-off or asset sales to other A-share listed companies could also help ADR's valuation. Using (1) cash level, (2) 2014 P/E, and (3) free floats to calculate a combined score for likelihood of privatisation (without considering other subject factors), the top ten companies are MCOX, KONG, FENG, GSOL, ZPIN, EJ, PWRD, LEJU, EDU, and JOBS.

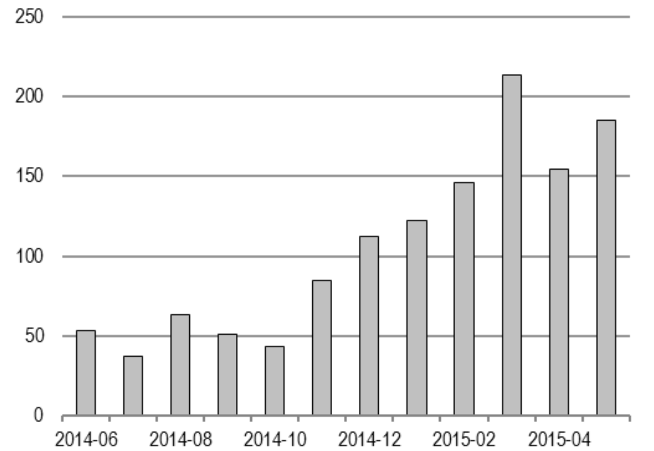
Focus charts and tables

Figure 2: **No. of A-share IPOs (monthly) since Jun 2014**



Source: Wind

Figure 3: **A-share IPO gross proceeds (monthly, Rmb bn)**



Source: Wind

Figure 4: **Four possible ways of China internet ADRs "come-back home"**

Method	Time cost	Financial cost	Regulatory uncertainty	Domicile of listed entity
Privatisation, VIE tear-down and re-IPO	High	High	Low	Chinese
Backdoor listing (restructuring)	Medium	High	Medium	Chinese or Foreign
A-share IPO as offshore company	Unknown	Unknown	High	Foreign
A-share IPO as domestic company	Unknown	Unknown	High	Chinese

Source: Credit Suisse

Figure 5: **Regulatory moves on potential "green light" of internet ADRs**

Time	Regulatory body	Content
Oct 2014	Shenzhen Stock Exchange	The SZSE would promote VIE-structured enterprises to list, preferably on the Chinext. Source
Jan 2015	Ministry of Commerce	The draft of Foreign Investment Law (FIL) defined newly founded VIEs as "domestic firms", if they were controlled by Chinese citizens or legal entities. However, it had not mention the existing VIEs. Source
Apr 2015	Shanghai Stock Exchange	The SSE was actively seeking ways for overseas-listed internet stocks with VIE structures to list on-shore. Source
Apr 2015	Shenzhen Qianhai Free Trade Zone	Qianhai FTZ would try to set up an "offshore exchange", which would allow overseas companies to list. Source
May 2015	State Council	Government would explore possible ways to encourage "qualified internet firms" to list on-shore. Source
May 2015	China Securities Regulatory Committee	The CSRC visited several of non-public internet companies and invited them to list on-shore when possible; however, the fate of overseas-listed internet firms were not mentioned. Source

Source: China Securities, Shanghai Securities News, Securities Times

Figure 6: **"Privatisation score", ranked base on P/E (40%), cash level (40%) and free float (20%)**

Company	Ticker	Price (US$)	Mkt cap (US$mn)	14A P/E	Net cash % of mkt cap	Free float (%)	Privatisation offer price	P/E Score	Cash score	Float score	Privatisation score
Mecox Lane	MCOX US	3.8	49	14.0x	38%	21%		5	5	5	**5.0**
KongZhong	KONG US	6.8	315	14.2x	57%	48%		5	5	3	**4.6**
Phoenix New Media	FENG US	8.0	598	12.5x	34%	29%		5	4	4	**4.4**
Global Sources	GSOL US	5.2	156	7.8x	66%	58%		5	5	2	**4.4**
Zhaopin	ZPIN US	15.1	767	20.8x	28%	15%		4	4	5	**4.2**
E-House	EJ US	6.7	953	12.2x	35%	40%		5	4	3	**4.2**
Perfect World	PWRD US	19.9	990	13.3x	48%	75%	20.0	5	5	1	**4.2**
Leju	LEJU.N	8.3	1,148	11.9x	25%	24%		5	3	4	**4.0**
New Oriental	EDU US	24.0	3,770	16.1x	28%	55%		5	4	2	**4.0**
51jobs	JOBS US	31.6	1,900	19.3x	31%	34%		4	4	3	**3.8**

Source: Company data, Credit Suisse research

China ADRs going back home?

A-share listing: What else beyond high valuation

So far in 2015, seven China ADRs have received “Going Private” proposals, with presumptions that these companies would relist in the A-share market at a higher multiple. Overseas listed Chinese internet stocks are generally trading at much lower P/E multiples than their A-share peers: e.g., overseas listed online games sector trades at 19x FY15E P/E, while their A-share counterpart trades at 108x. Hong Kong market is an unlikely candidate, given three-year profitability listing requirements on the mainboard.

However, we have concerns over ADRs relisting in the A-share market. The A-share market does not differentiate good- and low-quality companies (on valuation basis), therefore managements of such companies may not be incentivised to focus on long-term success. Besides, long lock-up period for investors and management, inflexibility of secondary offerings and use of proceeds are other concerns..

Nonetheless, privatisation, asset sales, dual listing in China and the US, should help with valuation of the ADR names. Based on our scoring system, some potential names are MCOX, KONG, FENG, GSOL, ZPIN, EJ, PWRD, LEJU, EDU, and JOBS.

What are the recent regulatory changes in ADRs?

First, the state council and multiple regulatory bodies have publicly expressed strong support for A-share listing for ADRs. On 4 June 2015, Premier Li Keqiang presided an executive meeting of the State Council, “to promote entrepreneurship and creativity”, and “innovative financing methods” was considered indispensable for that idea.

Second, the pending draft of Foreign Investment Law has addressed the legal status of VIEs for the first time. The ADRs names may officially be considered to be domestic or foreign entities – and potentially qualify for listing.

We believe these are signs that A-share relisting or dual listing of ADRs may become easier from now on.

Possible methods for ADRs coming back home'

Currently, there are two possible ways for ADRs to list in China:

(1) **VIE tear-down and re-IPO:** Its time cost and financial cost are both very high.

(2) **VIE tear-down and backdoor listing:** Back-door listing through reverse takeover and restructuring. Focus Media is currently going through a relisting process.

With regulatory changes, we believe dual listing may also possible in the future:

(1) **Dual-listing: A-share IPO as an offshore company:** Via “international board” or Shenzhen “offshore exchange”, ADR could be listed without restructuring (CDRs)

(2) **Dual-listing: A-share IPO as an onshore company** via the new Foreign Investment Law would grant most China ADRs “domestic enterprise status”.

Other developments in A-share market

The A-share market is transforming itself to make overall listing process easier. For example, the “Registration System” should make A-share IPOs easier with the IPO approval responsibility passed from CSRC to the stock exchange. For small caps ADR, the New “Third Board” is an intermediate choice, given lower entry barrier, shorter process, and easier access to re-financing.

On 19 May 2015, the SSE publicly expressed its plan to build a “strategic emerging board” soon. Unlike the Chinext, which is focused on SME listing, the “emerging board” would be focused on “larger companies in emerging sectors or with emerging models”. If China ADRs, especially the large internet companies, are allowed to dual-list in the A-share market, the emerging board is their most likely destination, in our view.

A-share listing: What else beyond high valuation

Why should China Internet ADRs list in A-share market?

So far in 2015, seven China ADRs have received “Going Private” proposals, with presumptions that these companies would relist in the A-share market at a higher multiple. The seven companies are: Xueda, Sungy Mobile, Taomee, Perfect World, Jiayuan, CMGE, and WX Pharma. Hong Kong market is an unlikely candidate, given three-year profitability listing requirements on the mainboard.

The A-share market saw 68 IPOs completed in 1Q15, making it one of the most active equity financing markets all over the world. Internet and new media are among the hottest investment themes in China, and A-share internet names generally trade at large valuation premiums compared with overseas-listed peers. Until recently, it was a difficult process for China Internet ADRs to “come back home”. However, a series of recent regulatory changes may make listing in the A-share market a possibility. It is possible that within a few years, most China internet ADRs will be allowed to be dually listed in A-share and overseas markets, in our view.

Figure 7: **2015 YTD announced China ADR privatisation deals**

Name	Date offer received	Premium (%)*
Perfect World	January 2, 2015	25.7%
Jiayuan	March 3, 2015 (June 9 updated)	55.2% (updated)
Sungy Mobile	April 13, 2015	8.9%
Xueda	April 20, 2015	19.9%
Wuxi Pharma	Apr 30, 2015	16.46%
CMGE	May 18, 2015	5.5%
Taomee	June 1, 2015	20.0%
Average		*21.7%*

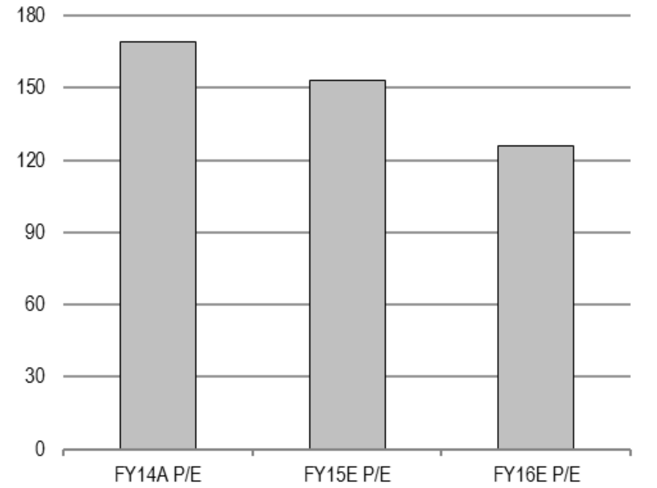
Source: Company press releases.

**Note: premium based on offer price vs. share price the day before announcement.*

A-share valuation looks tempting for internet names

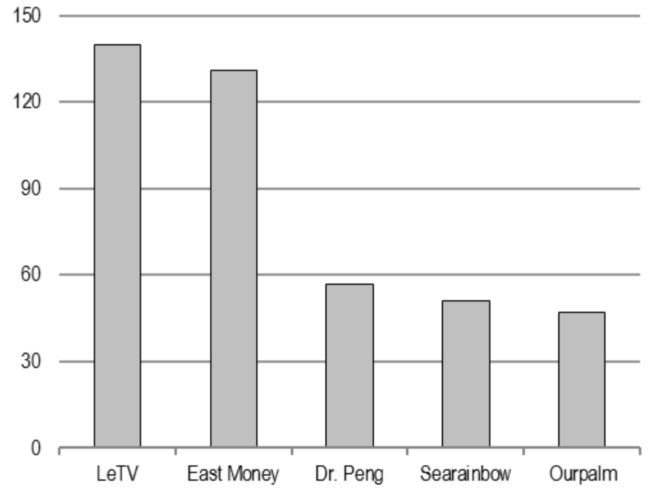
There are currently 24 internet stocks listed in the A-share market. Their average FY14A, FY15E and FY16E P/Es are 168x, 153x and 125x, respectively. Such high valuations reflect investors’ enthusiasm and optimism on the sector. After Premier Li Keqiang invented the concept of “Internet Plus”, which means to integrate internet with traditional industries, in this year’s NPC and CPPCC meetings, A-share market sentiment on the internet sector has always been high. The biggest A-share internet stocks, LeTV (online video) and East Money (internet finance), have market caps above Rmb100 bn. Moreover, 21 A-share internet stocks have market cap above Rmb10 bn.

Figure 8: **Average valuation of A-share internet stocks**



Source: Wind

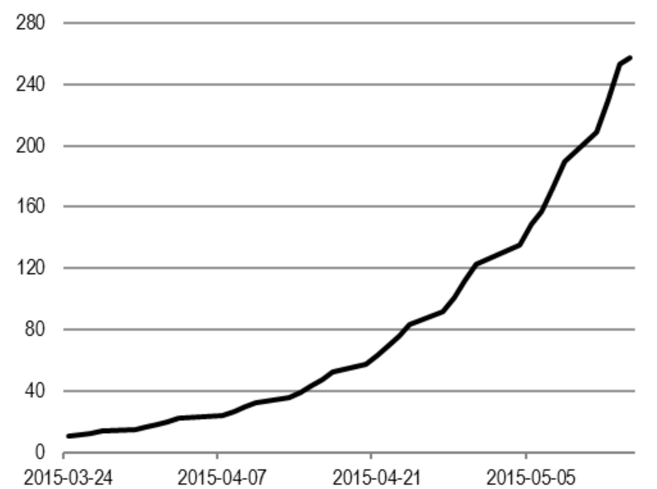
Figure 9: **Largest A-share internet stocks (Rmb bn)**



Source: Wind

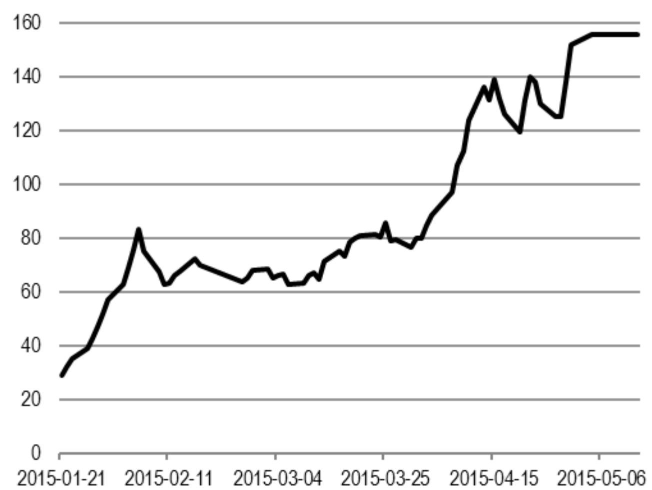
Internet IPOs have also been increasingly finding favour in the A-share market. The two most recent internet IPOs, Baofeng Tech (online video) and Kunlun Tech (online gaming), have seen their prices rise by 3500% and 670%, respectively. Note neither of the two is considered to be the market leader in its own territory. It is almost impossible for a lower-tier China online video or online gaming company to receive similar warm welcome in any overseas market. Therefore, A-share listing has become attractive for many China internet ADRs for higher valuation as well as liquidity.

Figure 10: **Baofeng Tech's performance after IPO**



Source: Wind

Figure 11: **Kunlun Tech's performance after IPO**

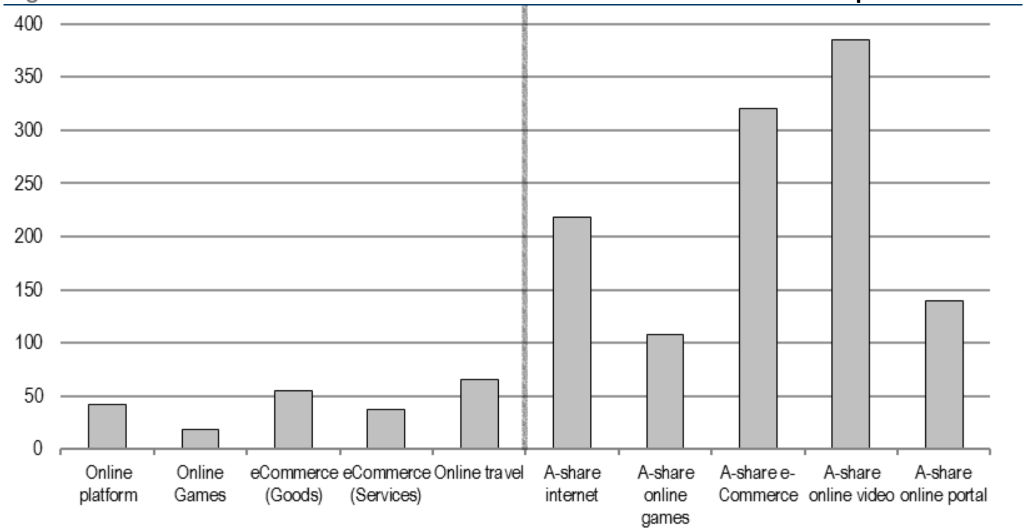


Source: Wind

Supply of internet stocks is still tight in the A-share market: There are 2,698 listed companies all over the market, and internet firms account for less than 1% of them (in terms of numbers of stock). There are also dozens of companies, most of which are from media and software sectors, actively expanding in internet-related businesses. However, even if we count all of them in, internet is still a small sector in the A-share market. At any rate, most successful Chinese internet firms, e.g., Tencent, Baidu and Alibaba, are overseas-listed. If the A-share market hopes to enhance and enlarge its internet sector portion, it has to attract some of these "overseas-listed elites" to come back home, no matter through which way.

By the end of May 2015, overseas listed Chinese internet stocks were generally trading at much lower P/E multiples than their A-share peers: overseas listed online games sector trades at 19x FY15E P/E, while their A-share counterpart trades at 108x; overseas listed e-commerce goods and services providers trade at 55x and 37x FY15E P/E respectively, while their A-share peers trade at 320x. The A-share internet sector as a whole trades at 218x FY15E P/E; its hottest sub-sector, online video, trades at 385x.

Figure 12: FY15E P/E—overseas listed Chinese internet stocks vs A-share peers



Source: Company data, Wind, Credit Suisse estimates

Does relisting in A-share market really help long-term success of a company?

Of course, there are some fundamental advantages from A-share relisting. First of all, “home market effect” cannot be ignored: A-share listing may make ordinary Chinese people more familiar with the company, the brand and its products; that was exactly what happened to Leshi (LeTV.com) and East Money. Second, since the Central Government is strongly encouraging A-share listing of internet firms, an A-share relisting will probably bring some kind of government support, not limited to subsidies and tax benefits. Third, home listing may also accompany with significantly lower accounting, legal and investor relations-related costs.

However, we believe a key function of the financial market is to help good quality companies grow. With the stock market development at early stages and a smaller ratio of the institutional investors trading, the A-share market may not differentiate good-quality companies with low-quality companies.

A-share market may not differentiate good-quality companies with low-quality companies

Rewarding long-term success of a company with share price appreciation is an important driver of sustainable innovation of the internet industry. If management is rewarded with share price gain simply by telling a story but not by strong execution, management would not be incentivised to build long-term success.

If management is rewarded with share price gain simply by telling a story but not by strong execution, management would not be incentivised to build long-term success

While investors continue to mature and institutional investments continue to increase, we believe it will take years for this to come through. Therefore, relisting internet companies in the A-share market may not help to set the right incentives for management.

Higher valuation, but there are also inconveniences

The major benefit of China internet ADRs to list or dual-list in the A-share market is to get higher valuation as well as higher liquidity. Nevertheless, they must comply to a less flexible regulatory system, which leaves management little space to act freely. There are several inconveniences that China internet ADRs must adapt to in the A-share market:

Long lock-up period

After an A-share IPO, the controlling shareholder (actual controller) should not sell any stake within 36 months. Theoretically, existing shareholder can choose to sell at IPO; however, the option has never been used since Jun 2014. The CSRC now reviews existing shareholders' sales on a case-by-case basis. But we believe most of the Internet companies' founders would not be exempted. We believe that in the near future, most IPOs would not include sales of existing shareholders' stake.

During the first 24 months after the 36-month lock-up period, the controlling shareholder can only sell stake at prices no lower than the IPO price; moreover, during this 24-month period, the controlling shareholder can only sell up to 15% of his holdings every year, and every time he sells, an announcement must be made at least 5 trading days BEFORE the transaction. Every director or executive has a 12-month lock-up period, and can only sell up to 25% of his/her stake every year afterwards. Therefore theoretically it takes many years to dispose his/her stakes – unless he /she resigns as a director or executive (a six-month lock-up period upon management resignation). Other existing shareholders before IPO, including PE investors, are subject to a 12-month lock-up period; if they have increased their stake within 12 months before IPO, the lock-up period will be extended to 36 months.

In most cases, major investors' lock-up period needs to be approved by the CSRC.

Inflexibility of secondary offering

Unlike in the US or Hong Kong, where secondary equity offerings can be completed within days, the process is prolonged in China. Companies may wait for 6-9 months on average before their equity placement requests get approved by the CSRC. Convertible and long-term corporate bond offerings are also subject to CSRC approvals. Of course, this situation may change if the registration system is introduced to the A-share market.

Difficulty of issuing share incentives

The CSRC has very tight regulation on share-based incentives, including restricted stock and options. Companies have to draft detailed proposal of such incentives, and may face around six months of examination period. Because of the prolonged process, accrued expenses related to share-based incentives are highly unpredictable, which may discourage companies.

Complex M&A process

M&A is another tightly regulated area in the A-share market. The CSRC not only requires detailed materials before and throughout the M&A process, but may also monitor the outcome for years. If a company fails to achieve M&A synergy as planned, it may be punished or fined by the CSRC, and its future M&A activities will become more difficult to get approved.

Inflexibility of the usage of IPO proceeds

In China, a company's IPO proceeds are deposited in a separate account, supervised by the IPO book-runner. These proceeds can only be used for purposes listed in the IPO prospectus. If the company decides to change the usage of them, it has to issue a formal announcement and apply for CSRC approval. Therefore, IPO proceeds are generally not available for immediate use.

Nonetheless we believe this will help ADR valuation near term

While most investors talk about privatisation of ADRs, we believe ADR valuation could also be helped by dual-listing, asset sales, or asset listing.

Privatisation helps valuation

With the hopes that ADRs could be relisted in the A-share market, and with potential privatisation, we believe Chinese ADRs could sustain a higher valuation. In particular, we believe sectors observing a large valuation gap between US and A-share markets could see higher valuation, such as games, media and education companies.

Dual-listing in the US and China

We will discuss this scenario in more detail in following section. If internet names were to be dual-listed in the US and China, we expect the valuation gap between the ADRs and A-share could be closer between the two markets. In particular, with regulatory relaxation for funds flows to come out of China, this would help narrow the valuation differences.

Asset sales or acquisition by other A-share companies

On the other hand, assets of small-cap internet/media ADRs may also be acquired by A-share listed companies in order to improve both earnings and valuation. As the A-share market is rewarding “new economy” sectors, more and more “old economy” stocks are trying to transform into “new economy” through M&A. China ADRs are perfect acquisition targets, in our view, given their track record, brand name and management experience. Although such cross-border acquisitions are subject to supervisions from both the CSRC and the MOFCOM (Ministry of Commerce), they are still considered a good try by many A-share listed companies, and may become a “common practice” sooner or later.

Asset spin-off and IPO in A-share

ADR may also consider selling a piece of an asset and have it listed in the A-share market. In that case, the process is faster than going through a full-privatisation.

Who are the likely privatisation candidates?

We use a numeric method to calculate which companies are more likely to be privatised. We selected three criteria in our calculation of “Privatisation Score”:

(1) Cash level as % of market cap – 40% weight

(2) 2014A P/E – 40% weight

(3) Free float % - 20% weight

For each of these criteria, we assign a score from 1 to 5 for the names on our list. 5 is more likely to privatise, and 1 being less likely.

The final “Privatisation Score”, with 5 the highest, suggesting more likelihood for privatisation based on our three-criteria framework.

We note that in the calculation, we did not consider other factors, such as: (1) controlling shareholders’ view on privatisation and other subjective factors, (2) valuation gap between A-share and ADR in different sub-sectors, (3) future earnings power, and (4) FCF for potential debt payment incurred from privatisation expenses.

We believe this basic three-criteria framework works reasonably well directionally, as all six companies with privatisation offer announced score 3.2 points or above, and is ranked as top 40% in the table.

Figure 13: **Companies that have received privatisation offers YTD**

Company	Ticker	Price (US$)	Date offer received	Mkt cap (US$mn)	14A P/E	Net cash % of mkt cap	Free float (%)	Offer price (US$)	P/E score	Cash score	Float score	Privatisation Score
Perfect World	PWRD US	19.9	January 2	990	13.3x	48%	75%	20.0	5	5	1	**4.2**
Taomee	TAOM US	3.4	June 1	130	171.5x	55%	27%	3.6	2	5	4	**3.6**
Xueda	XUE.US	3.7	April 20	227	-60.8x	105%	23%	3.4	1	5	5	**3.4**
CMGE	CMGE US	20.0	May 18	630	15.8x	10%	33%	21.5	5	2	3	**3.4**
Jiayuan	DATE US	7.4	March 3	246	35.2x	30%	42%	7.2	3	4	3	**3.4**
Sungy Mobile	GOMO US	4.7	April 13	156	69.6x	64%	7%	4.9	2	5	2	**3.2**

Source: Company press releases.

Below is a list of major China ADR names in Internet-related and education sectors, with our score based on our three-criteria framework.

Figure 14: "Privatisation score", ranked base on P/E (40%), cash level (40%) and free float (20%)

Company	Ticker	Price (US$)	Rating	Mkt cap (US$mn)	14A P/E	Net cash % of mkt cap	Free float (%)	Privatisation offer price	P/E score	Cash score	Float score	Privatisation Score
Mecox Lane	MCOX US	3.8		49	14.0x	38%	21%		5	5	5	**5.0**
KongZhong	KONG US	6.8		315	14.2x	57%	48%		5	5	3	**4.6**
Phoenix New Media	FENG US	8.0		598	12.5x	34%	29%		5	4	4	**4.4**
Global Sources	GSOL US	5.2		156	7.8x	66%	58%		5	5	2	**4.4**
Zhaopin	ZPIN US	15.1	N	767	20.8x	28%	15%		4	4	5	**4.2**
E-House	EJ US	6.7	O	953	12.2x	35%	40%		5	4	3	**4.2**
Perfect World	PWRD US	19.9		990	13.3x	48%	75%	20.0	5	5	1	**4.2**
Leju	LEJU.N	8.3	O	1,148	11.9x	25%	24%		5	3	4	**4.0**
New Oriental	EDU US	24.0	O	3,770	16.1x	28%	55%		5	4	2	**4.0**
51jobs	JOBS US	31.6		1,879	19.3x	31%	34%		4	4	3	**3.8**
Sky-mobi	MOBI US	4.5		136	70.5x	60%	47%		3	5	3	**3.8**
China Digital TV	STV US	4.8		285	14.1x	22%	55%		5	3	2	**3.6**
Taomee	TAOM US	3.4		130	171.5x	55%	27%	3.6	2	5	4	**3.6**
CDEL	DL US	16.0	O	577	23.8x	20%	29%		4	3	4	**3.6**
SouFun	SFUN US	8.4	O	3,674	15.0x	16%	30%		5	2	4	**3.6**
Light in the box	LITB US	5.0		238	-10.0x	35%	22%		1	5	5	**3.4**
Xueda	XUE.US	3.7		227	-60.8x	105%	23%	3.4	1	5	5	**3.4**
Xunlei	XNET US	10.4		700	90.8x	62%	32%		2	5	3	**3.4**
CMGE	CMGE US	20.0		630	15.8x	10%	33%	21.5	5	2	3	**3.4**
Renren	RENN US	4.3		1,621	28.3x	25%	34%		4	3	3	**3.4**
Jiayuan	DATE US	7.4		246	35.2x	30%	42%	7.2	3	4	3	**3.4**
NetEase	NTES US	144.1	O	18,835	22.8x	21%	55%		4	3	2	**3.2**
Sungy Mobile	GOMO US	4.7		156	69.6x	64%	7%	4.9	2	5	2	**3.2**
Dangdang	DANG US	9.0	N	741	46.9x	36%	66%		3	4	2	**3.2**
YY	YY US	73.0	N	4,045	23.0x	6%	14%		4	1	5	**3.0**
Changyou	CYOU US	32.4	O	1,707	2336.1x	19%	19%		2	3	5	**3.0**
Tuniu	TOUR US	18.2	N	906	-13.2x	34%	19%		1	4	5	**3.0**
Bitauto	BITA US	59.9	N	3,601	32.1x	26%	42%		3	3	3	**3.0**
ChinaCache	CCIH US	12.7		322	55.2x	34%	69%		3	4	1	**3.0**
Tarena	TEDU US	12.1	O	730	23.4x	23%	73%		4	3	1	**3.0**
NetQin	NQ US	5.7		459	19.1x	21%	82%		4	3	1	**3.0**
Sina	SINA US	57.1	O	3,328	74.5x	38%	84%		2	5	1	**3.0**
iDreamSky	DSKY US	10.5		444	-1.7x	29%	25%		1	4	4	**2.8**
Autohome	ATHM US	46.5	U	5,169	40.1x	10%	27%		3	2	4	**2.8**
Jumei	JMEI US	23.2	N	3,313	49.8x	17%	28%		3	2	4	**2.8**
The9	NCTY US	1.4		40	-1.9x	73%	50%		1	5	2	**2.8**
500.com	WBAI US	23.8		760	20.1x	19%	68%		4	2	1	**2.6**
Baidu	BIDU US	203.2	O	71,346	31.1x	12%	83%		4	2	1	**2.6**
Alibaba	BABA US	88.3	O	219,605	41.4x	5%	13%		3	1	5	**2.6**
eLong	LONG US	18.7		627	-70.5x	26%	15%		1	3	5	**2.6**
VIPShop	VIPS US	23.8	O	13,588	70.9x	5%	29%		3	1	4	**2.4**
China Finance Online	JRJC US	4.9		111	-14.8x	29%	48%		1	4	2	**2.4**
TAL	XRS US	36.0	O	2,814	41.9x	9%	60%		3	2	2	**2.4**
Qihoo 360	QIHU US	61.0	O	7,047	26.6x	0%	61%		4	1	2	**2.4**
Cheetah Mobile	CMCM US	34.3	O	4,792	118.9x	4%	10%		2	1	5	**2.2**
Weibo	WB US	19.8	O	4,007	-796.8x	11%	13%		1	2	5	**2.2**
JD.com	JD US	36.2	O	50,113	4025.6x	9%	22%		2	1	5	**2.2**
21Vianet	VNET US	20.7		1,703	101.2x	18%	46%		2	2	3	**2.2**
Sohu	SOHU US	69.7	N	2,690	-22.4x	36%	78%		1	4	1	**2.2**
AirMedia	AMCN US	7.2		460	-16.7x	14%	36%		1	2	3	**1.8**
Youku	YOKU US	30.0	O	5,814	-65.4x	20%	72%		1	3	1	**1.8**
Baozun	BZUN US	11.9		576	-39.1x	7%	23%		1	1	4	**1.6**
Ku6	KUTV US	1.3		61	-5.6x	7%	30%		1	1	4	**1.6**
58.com	WUBA US	81.8	O	9,451	248.1x	5%	61%		2	1	2	**1.6**
Momo	MOMO US	17.0		3,178	-79.3x	14%	69%		1	2	1	**1.4**
Ctrip	CTRP US	74.3	O	10,559	99.9x	1%	84%		2	1	1	**1.4**
Qunar	QUNR US	50.4		6,053	-42.9x	3%	42%		1	1	3	**1.4**

Source: Company data, Credit Suisse estimates for covered companies

What are the recent regulatory changes in ADRs?

There are several clear signs that A-share relisting or dual listing of ADRs may become easier from now on. First, the state council and multiple regulatory bodies have publicly expressed strong support of A-share listing for ADRs. Second, the pending draft of *Foreign Investment Law* has clearly addressed the legal status of VIEs for the first time. As the representative of "new economy" and "internet plus", internet ADRs may be the first to be able to come back to China, in our view.

The State Council: Support "special equity structure"

Most overseas listed Chinese internet firms have adopted the VIE (variable interests entities) structure, which could help them bypass legal and regulatory barriers. Historically, the only way for these companies to "come back home" is to privatise, tear down the VIE structure, merge all operating entities into a new firm, and apply for A-share IPO. Based on past transactions, privatisation processes of China ADRs may take four to five months to complete in average. After that, there is usually a prolonged waiting period, since the CSRC (China Securities Regulatory Commission) has a strict standard on "clear company history and structure". In most cases, China ADRs theoretically need to wait for at least three years after privatisation to launch an A-share IPO (to satisfy the requirements of no significant changes in corporate structure three years prior to IPO).

On 4 June, 2015, Premier Li Keqiang presided an executive meeting of the State Council. The key idea of this meeting was "to promote entrepreneurship and creativity", and "innovative financing methods" was considered indispensable for that idea. Furthermore, the State Council expressed its support for "IPO of enterprises with special equity structure within China".

Although the State Council itself did not give a clear definition to "special equity structure", *Securities Times,* one of China's four "official securities newspapers" believed that it meant VIE structure. If so, it would be the first time the State Council gave a clear opinion about the future of VIE structured enterprises. As long as the decision is made at the top level, we believe all major regulatory bodies will soon work accordingly.

Regulatory "green light" to internet ADRs

Since late 2014, the regulators have become more open towards "ADR come-back". The SSE (Shanghai Stock Exchange) and the SZSE (Shenzhen Stock Exchange) have both publicly indicated their support for VIE-structured enterprises to list on-shore through some "express ways". Shenzhen Qianhai FTZ (Free Trade Zone), one of the newly established FTZs in China, have announced its interest of building an "offshore exchange" which would allow overseas companies to list or dual-list in China. Moreover, the State Council announced its *Opinions on the Promotion of New Economic Engines through Development of E-Commerce* in May 2015, which emphasised that "qualified internet companies would be encouraged to list on-shore." The CSRC has been conducting extensive research on internet firms, mostly non-public, and invited them to list onshore when possible; but the fate of overseas-listed internet firms was not mentioned.

Figure 15: **Regulatory moves on potential "green light" of internet ADRs**

Time	Regulatory body	Content
Oct 2014	Shenzhen Stock Exchange	The SZSE would promote VIE-structured enterprises to list, preferably on the Chinext. Source
Jan 2015	Ministry of Commerce	The draft of Foreign Investment Law (FIL) defined newly founded VIEs as "domestic firms", if they were controlled by Chinese citizens or legal entities. However, it had not mentioned the existing VIEs. Source
Apr 2015	Shanghai Stock Exchange	The SSE was actively seeking ways for overseas-listed internet stocks with VIE structures to list onshore. Source
Apr 2015	Shenzhen Qianhai Free Trade Zone	Qianhai FTZ would try to set up an "offshore exchange", which would allow overseas companies to list. Source
May 2015	State Council	The government would explore possible ways to encourage "qualified internet firms" to list onshore. Source
May 2015	China Securities Regulatory Committee	The CSRC visited several of non-public internet companies and invited them to list on-shore when possible; however, the fate of overseas-listed internet firms were not mentioned. Source

Source: China Securities, Shanghai Securities News, Securities Times

Although it seems that some "green light" for internet ADRs may be ahead, there is little detail on how and when exactly they would list in the A-share market, and whether dual-listing is possible. The attitudes of different regulatory bodies are often ambiguous and different from each other. It is certain that all regulatory bodies would welcome qualified internet firms with VIE structures, either private or overseas-listed, to list onshore. The question is: Will internet companies be allowed to list in the A-share market WITH existing VIE structures, instead of tearing them down? If so, it will save a lot of time as well as cost.

This is a very complicated question that involves multiple aspects:

Corporate structure

The CSRC has very strict regulations on corporate and shareholder structure. VIEs are usually considered "non-standard" or even "wrongful" under such regulations. However, the CSRC and two exchanges have all expressed willingness to grandfather internet sector from such regulations. Therefore, it is possible for internet firms with VIE structures to get A-share IPO admission.

Offshore enterprise status

There have been no offshore companies listed in the A-share market so far. The latest *Securities Law* allows foreign companies to issue securities in China, given that their home countries have established co-regulation mechanism with China. Unfortunately, most China ADRs are incorporated in the Cayman Islands which has no such mechanism, making them ineligible to issue securities in China.

ICP license qualification

Even if China internet ADRs are allowed to list in the A-share market with VIE structures, they may face further problems. In China, ICP (internet content provider) services are on the "foreign investment restriction list", which means that foreign companies must apply for Market Entry Permit; certain ICP services, e.g., news website and online video, are on the "prohibition list", which forbids any foreign investment.

More detailed look at Foreign Investment Law: A great change?

While many market watchers believe new draft *Foreign Investment Law (FIL),* which was released for comments in January 2015, will lead to an eventual crackdown of the VIEs, we see this as a step to allow VIEs to officially be listed in China.

The core intention of the FIL is to reduce the excessive regulation on foreign-controlled entities and structures, to grant them "national treatment" and to introduce unified corporate governance as with domestic companies. With FIL introducing the concept of "control", local operating companies which are foreign-controlled via VIE contracts, could be included in the law. FIL will likely be the first Chinese law to clearly address the legal status of VIEs, and thus eliminate the "grey area".

One outcome could be that VIE structures will be divided into "Chinese" and "foreign" controlled VIEs, depending on the nature of their "actual controllers". They will be subject to respective regulatory and reporting systems. Meanwhile, the existing VIEs are not mentioned in the draft, and may get grandfathered.

(1) If an enterprise is actually controlled by Chinese citizens or legal entities set-up by Chinese citizens, it would be considered as a domestic enterprise rather than a foreign one. The definition of "actually controlled" includes ANY of the followings: holding of the majority stake; ability to nominate majority of board directors; ability to "materially influence" the outcome of shareholders' meetings or board meetings; and ability to "decisively influence" the company's operations through special agreements.

(2) An enterprise controlled by Chinese citizens or legal entities will not be subject to foreign investment information disclosure obligation. They are also allowed to operate directly in "restricted sectors" (while foreign enterprises have to apply for a Market Entry Permit first).

(3) Meanwhile, if an enterprise has foreign minority interest, it still cannot operate in "prohibited sectors" in which foreign investment is strictly prohibited. The lists of "restriction sectors" and "prohibition sectors" will be announced separately by the State Council (the current restriction and prohibition lists are published by the NDRC).

(4) The fate of existing VIE-structured enterprises, especially those who are currently operating in restricted or prohibited sectors, is not mentioned. It is possible that they will be grandfathered. It is also possible that they will be subject to case-by-case reviews and verifications by regulators. This is the biggest uncertainty.

It is uncertain what will be included in the State Council's restriction and prohibition. According to the current NDRC (National Development and Reform Commission) lists, the following internet-related sectors are either restricted or prohibited for foreign investments:

Figure 16: **Current Internet-related sectors in which foreign investment is restricted/prohibited by NDRC. State Council to release another list under FIL**

Type	Content
Restriction list	Value-added telecommunication service (**excluding e-commerce**)
	Basic telecommunication service
	Banks, insurance companies, securities brokerage firms, fund management firms and futures trading firms
	Credit report and rating agencies
	Film and TV program production
Prohibition list	News content generation and reporting
	Book, newspaper and magazine publication
	Digital and electronic publication
	News websites, online publication, online video and radio (excl. music)

Source: National Development and Reform Commission

Internet Content Provision: News websites, news content generation and online video and radio services are prohibited (excl. music). Many existing China internet ADRs have operations in these sectors, and their fate is yet to be determined.

Publication: Traditional, digital and internet-based publications are all prohibited. This includes e-books and image-text publications.

Film and TV: Film and TV program production is restricted, not prohibited; VIEs can invest directly if they are actually controlled by Chinese citizens or legal entities. Nevertheless, film distribution and TV broadcasting are prohibited.

Internet Finance: Banking, securities brokerage, fund management, futures trading and credit report are all restricted, not prohibited. As a result, Chinese-controlled VIEs can invest almost freely in all internet finance sub-sectors.

Other: "Value-added telecommunication service" is included in the restriction list. Its definition is very broad, including almost all ISP and ICP service, e.g., internet search engine, e-mail, online gaming, voice-based information service, etc. E-commerce is the only ICP service neither on the restriction nor on the prohibition list.

If the *Foreign Investment Law* is to be passed in its current shape, China internet firms ultimately controlled by Chinese citizens will be considered as domestic firms, and thus eligible for A-share listing, regardless of their registered locations. While it is great news for most internet companies, those with significant news websites and online video operations are still subject to material regulatory risk.

Possible methods for ADRs coming back home

Dick Wei
852 2101 7339
dick.wei@credit-suisse.com

Contribution by Archibald Pei

Note: The sections from pages 15-17 and 19-21 are contributed by Archibald Pei. Please refer to the disclosures on pages 25-26 for these sections.

contributed by Archibald Pei. Under the current regulatory framework, there are two ways of A-share listing for China ADRs: Privatisation and re-IPO, and backdoor listing. Both ways require tearing down the VIE structure. Meanwhile, if the *Foreign Investment Law* gets passed, China ADRs will be able to launch A-share IPOs as domestic companies. Last but not the least, China internet ADRs with VIE structures may be listed as foreign companies, with SSE and Shenzhen Qianhai FTZ planning for some "offshore board" or "international board", and State Council expressed its support for "IPO of enterprises with special equity structure within China".

Therefore, there are two currently possible ways for internet ADRs to come-back home.

(1) **VIE tear-down and re-IPO:** This is the most frequently used way, as well as almost the only successful way for China ADRs to come-back so far. Its time cost and financial cost are both very high. As discussed before, companies generally have to wait for three years after VIE tear-down before applying for A-share IPO. Baofeng Tech is a latest example: after cancelling its U.S. IPO proposal in 2008, the company broke the VIE structure and applied for A-share IPO in 2010, but failed. The CSRC only approved it in 2014.

(2) **VIE tear-down and backdoor listing:** Back-door listing through reverse takeover and restructuring is a common practice in the A-share market, although in recent years the CSRC has become more prudent about it. In March 2015, the A-share listed Songcheng Performance Development acquired 6Room, a VIE-structured online video website which had just cancelled its US IPO proposal; but it was not considered "backdoor listing", since the acquiree was much smaller than the acquirer. Focus Media has been trying an A-share backdoor listing for months.

With the changes in regulatory landscape and opening up of the China domestic market, we believe dual listing is also possible in the future:

(1) **Dual-listing: A-share IPO as an offshore company:** The SSE is planning an "international board", while Shenzhen Qianhai FTZ is planning an "offshore exchange". Both would allow China ADRs to list. However, the *Securities Law* may need to change, as it only allows "companies whose home countries have co-regulation mechanism with China" to list in China, while most China ADRs are registered in Cayman Islands which has no such mechanism. The State Council may grandfather such requirement on a case-by-case basis. Moreover, the SSE has also discussed about introducing "China Depositary Receipts", or CDRs, which is the Chinese counterpart of ADRs. If launched, CDRs will likely greatly smoothen the dual-listing process of VIE-structured Chinese companies.

(2) **Dual-listing: A-share IPO as onshore company:** The new *Foreign Investment Law* would grant most China ADRs "domestic enterprise status", effectively allowing them to list in the A-share market as domestic stocks. However, there are still many minor regulatory problems regarding the VIE structures. It was reported that the SSE will set up an "emerging board" which would provide "tailored solution" for China internet ADRs to dual-list.

Figure 17: **Four possible ways of China internet ADRs "come-back home"**

Method	Time cost	Financial cost	Regulatory uncertainty	Domicile of listed entity
Privatisation, VIE tear-down and re-IPO	High	High	Low	Chinese
Backdoor listing (restructuring)	Medium	High	Medium	Chinese (Foreign is also possible)
A-share IPO as offshore company	Unknown	Unknown	High	Foreign
A-share IPO as domestic company	Unknown	Unknown	High	Chinese

Source: Credit Suisse

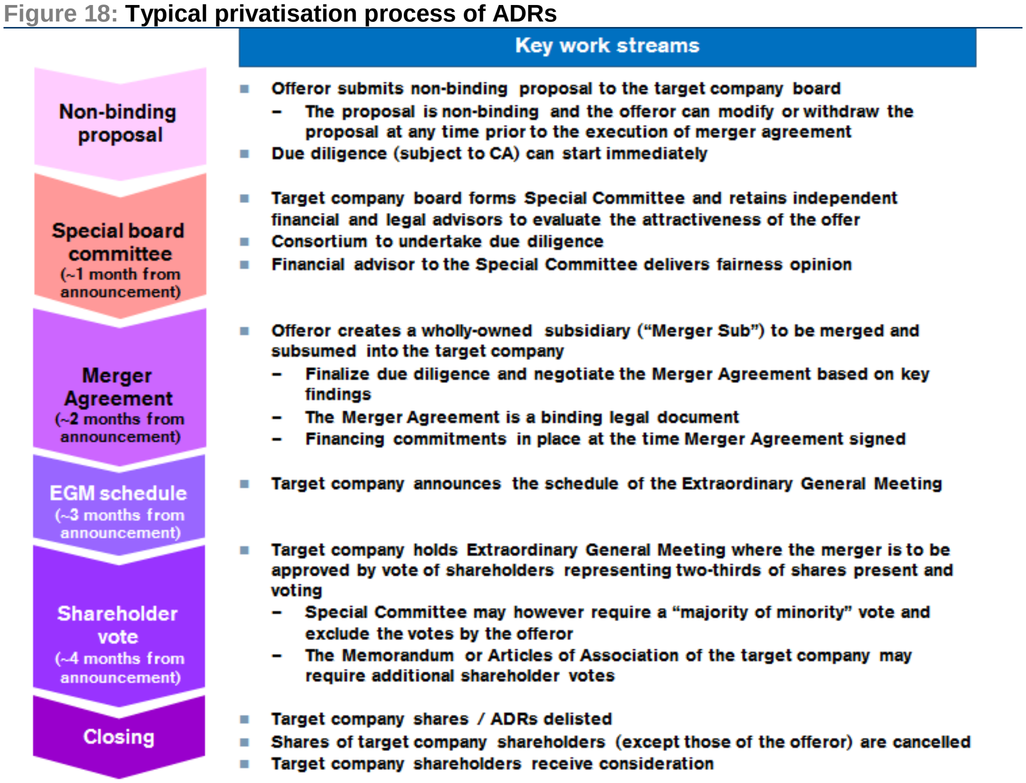
Our conclusion is: the traditional way (VIE tear-down and re-IPO) is the most expensive and time-consuming, but is also the only "proven" way of China ADRs coming back; backdoor listing will consume significantly less time, but regulatory risk is higher.

Meanwhile, the regulators may allow China internet ADRs to launch A-share IPO without tearing down VIE structures, either as offshore or onshore companies, in near future. That would be very attractive for large-cap China internet giants, who may prefer to keep access to both Chinese and overseas capital markets. However, the timing for such regulatory changes are uncertain.

Privatisation: A costly and time-consuming process

Privatisation of ADRs can be completed in multiple ways, but almost all of them are costly and time-consuming. A popular method is called "one-step merger", in which the acquirers (usually the controlling shareholders and strategic investors) form an intermediate (merger sub) to acquire all shares of the listed entity, and the ADR is thus delisted. It generally costs around four months from the announcement of the proposal to shareholders' voting; and several months may be spent before the deal closes. We estimate that a successful privatisation deal may take a few months of planning, as well as another six months of execution and closing, which makes the total time to around one year.

Figure 18: **Typical privatisation process of ADRs**



Source: Credit Suisse

Costs involved in restructuring process

While legal costs and accounting costs during the privatisation and relisting process are well expected, we want to highlight that during the process of combining VIE entities to a single listing operating unit, a 10% VAT is charged for the change in value of this single-listing entity. Given the low physical asset value of the internet companies, the tax is essentially 10% of company value.

Privatisation cases

In 2012, there were 14 successful privatisation cases of China ADRs; in 2013, the number was 10. However, privatisation activities slowed down significantly since then, as there were only three privatizations (all pending) of China ADRs in 2014 and 1Q15. A privatisation offer is almost always at a premium on near-term market price: In 2012, 2013 and 2014, the offer price premium upon trailing 30-day average trading price was 52.8%, 32.8% and 45.0%, respectively; overall average 30-day price premium since 2012 was 43.2%. As most privatisation offers are all cash, they may create significant financial burden for the acquirers.

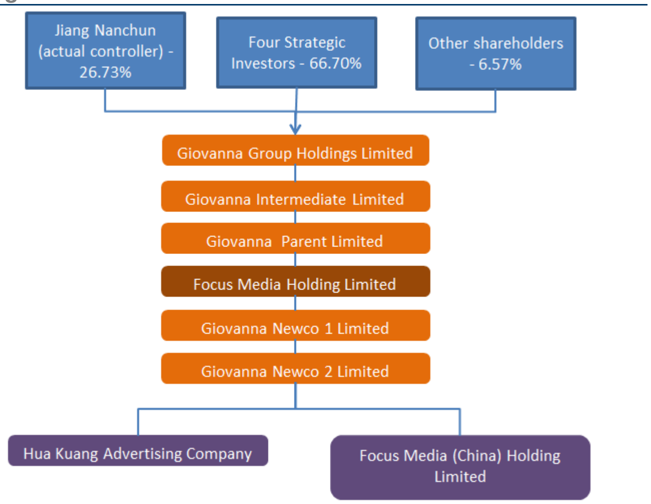
However, under the current regulatory framework, the acquirers need to wait for another three years before their A-share IPO proposals are considered. As a result, associated risks can be very high. Although the A-share market is hot now, who can ever guarantee that things will be the same after three years? No wonder more and more China ADRs are exploring new, less time-consuming ways of A-share relisting.

Focus Media: a precedent of backdoor listing?

In February 2015, *Shanghai Securities News*, one of the four "official securities newspapers" of China, reported that Focus Media was planning an A-share backdoor listing. It would be done through a reverse takeover, in which the shell company (later revealed as Jiangsu Hongda New Material (002211.SZ) would pay cash and issue stock to Focus Media's ultimate shareholders in exchange for its operating assets. A May 2015 report by Tencent Tech claimed that instead of tearing down the VIE structure, Focus Media would likely keep at least part of its VIE structure even after the reverse takeover. However, the official filing released on 4 June, 2015 revealed that the VIE structure was completely torn down.

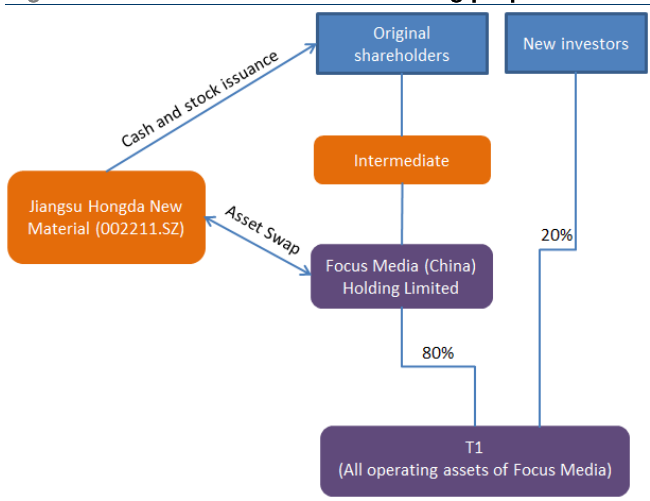
Before the restructuring, Focus Media had a standard VIE structure: the company's operating assets are in Focus Media (China) Holding Limited (FMCH) and Hua Kuang Advertising, two onshore companies. They are, through six layers of intermediate companies, most of which are registered either in Cayman Islands or British Virgin Islands, ultimately controlled by Chairman Jiang Nanchun, and invested by a group of four private equity investors. From official filings of Jiangsu Hongda New Material (002211.SZ), a new entity, FMCH (or T1), which includes all operating assets of Focus Media, Focus Media will introduce a group of new investors to buy 20% of FMCH's stake. After that the shell company will launch an asset swap with FMCH; moreover, it will pay cash and issue stock to the ultimate shareholders of FMCH, making them the majority shareholders of the shell company. In the end, FMCH will become the only operating asset of the shell company.

Figure 19: Focus Media VIE structure



Source: Tencent Tech

Figure 20: Focus Media backdoor listing proposal



Source: Tencent Tech

This reverse takeover is special, because Focus Media abolished the VIE structure only since December 2014. It was reported that Focus Media would only "partially" tear down the VIE structure, which is now proved wrong. If Focus Media was to launch an A-share IPO, it would have wait until Dec 2017 to fulfil the "three year of existence without major restructuring" rule. Backdoor listing, on the other hand, could bypass such rules.

If Focus Media is able to complete A-share backdoor listing within six months after its VIE structure tear-down, it would probably become a precedent. Many smaller China internet and new media ADRs with low investor coverage in the US market would consider following that precedent. According to news reports, Focus Media started backdoor listing process in October 2014, and the whole process may take 12 months to complete; that is a much shorter time cycle compared with the regular A-share IPO process.

Other developments in A-share market

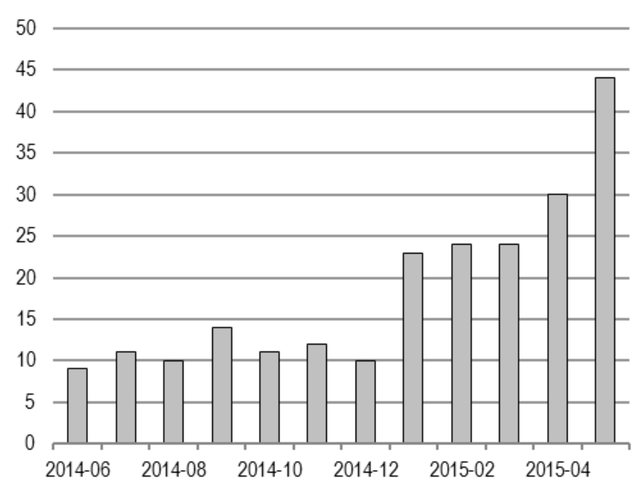
A-share IPOs resumed in June 2014 and will likely get to full speed in 2H15, thanks to the great bull market. During the last 12 months, 53% of A-share IPO listings were for either the SME board or the Chinext. The regulators have been talking about a change from “examination and approval system” to “registration system”, which may make A-share IPO significantly easier in the future. The NEEQ, or the “Third Board” OTC market, is another intermediate choice for China ADRs.

A-share IPO: Resuming to full speed in 2H15

A-share IPOs resumed since June 2014. Since the beginning of 2015, due to strong secondary market performance and rising investor sentiment, A-share has become the world’s most active IPO market. During 1Q2015, 71 companies completed their A-share IPOs. Number of IPO deals completed in April and May were 30 and 44, respectively. Almost all new stocks have received warm welcome from secondary market investors and have seen strong post-IPO performance.

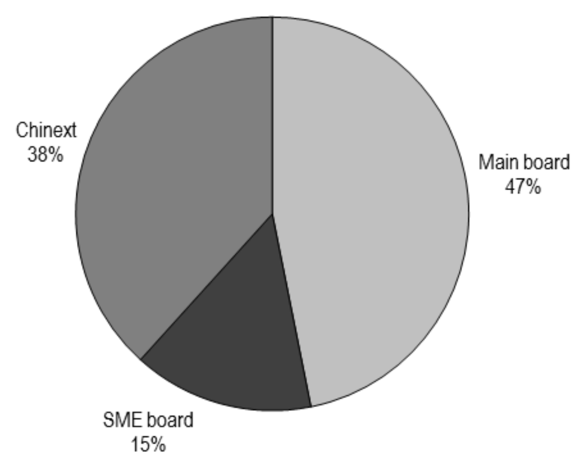
During the last twelve months, 47% of A-share IPO listings were for the main board (SSE), and 53% of them were for either the SME board or the Chinext (both are parts of SZSE). Almost all internet stocks have been listing on the SME board or the Chinext, due to their high-growth nature. In fact, the Chinext has become so successful that the SSE is now considering opening a similar section of its own, called “emerging board”.

Figure 21: **No. of A-share IPO (monthly) since Jun 2014**



Source: Wind

Figure 22: **Majority of A-share IPOs are on SME or Chinext**

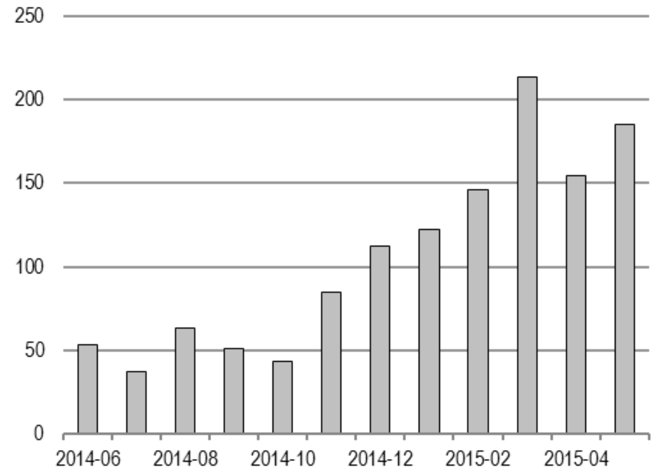


Source: Wind

After the resumption of IPO, from Jun to Dec 2014, average monthly IPO gross proceeds of the A-share market was Rmb63.57 bn. The number continues to grow in 2015: so far this year, average monthly IPO gross proceeds of the A-share market was Rmb164.19 bn! We may conclude that the A-share market is already big and deep enough to accommodate the world’s largest internet companies coming out of China.

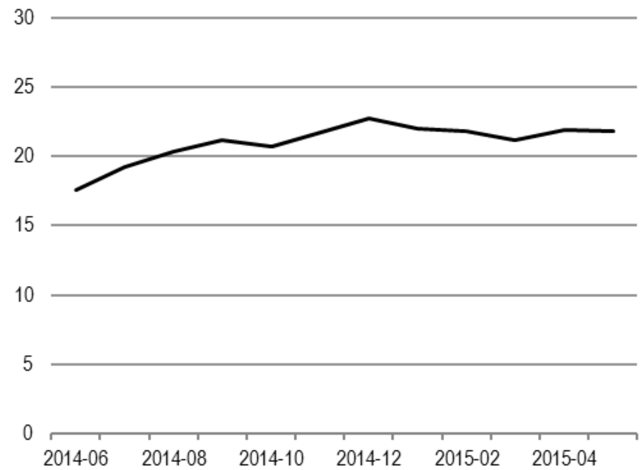
Due to strict regulatory guidance, A-share IPO valuation is not high in general. In the last 12 months, average A-share IPO static P/E was almost always around 20x. In order to avoid “irrational IPO pricing”, the CSRC often steps in the pricing process and even gives direct order. That is certainly not good news for major internet companies, which may demand higher valuation for their higher growth potential. However, this situation may also change quickly, since both the regulators and investors have realised the defects of such regulator-led IPO pricing model.

Figure 23: **A-share IPO gross proceeds (monthly, Rmb bn)**



Source: Wind

Figure 24: **A-share IPO average static P/E: around 20x**



Source: Wind

Registration system to make A-share IPO easier

The regulators, as well as mainstream media, have been talking about a change from "examination and approval system" to "registration system" for A-share IPOs. Under the current system, all IPOs are examined and approved by the CSRC as an administrative entity; under the proposed "registration system", such approvals will no longer be needed. Instead, companies only need to register at the stock exchanges, meet certain regulatory requirements, and let the market investor decide their fate. This system is more market oriented and more like the common process in developed countries.

If the registration system is to be established in the A-share market, it may accelerate the IPO process of internet companies. Because internet stocks are very popular in the A-share market, investors will likely prefer them. Under the current approval system, every company needs to wait in line for months, even years, before approved. Abolishment of such a system will certainly encourage internet firms, including ADRs, to list in China.

SSE's "emerging board": Designed for ADRs?

On 19 May, 2015, the SSE publicly expressed its plan to build a "strategic emerging board" soon. Unlike the Chinext, which is focused on SME listing, the "emerging board" would be focused on "larger companies in emerging sectors or with emerging models". Moreover, "innovative corporate governance structure" is also considered as target companies of emerging board, according to the SSE. SSE Vice President Liu Shian admitted that "emerging board would prepare to accept come-back of China ADRs to A-share market", though detailed policy arrangements are yet to determine.

On 29 May, the PBOC published *2015 China Financial Stability Report*, which mentioned "SSE's strategic emerging board" as a financial innovation. This was widely considered as a sign of support for the emerging board from the Central Government. If China ADRs, especially the internet giants, are allowed to dual-list in the A-share market, the emerging board is their most likely destination, in our view.

The new "Third Board": An intermediate choice

Historically, there has been provincial and municipal OTC markets in China, components of which were largely delisted stocks from the SSE and SZSE. It had neither liquidity nor public attention. However, since 2006, Beijing-based small and micro-sized technology companies have been allowed to be quoted on local OTC market to attract investments. In 2012, a national centralised OTC market, National Equities Exchange and Quotations (NEEQ) were formed. Since then, the NEEQ is widely called "the Third Board" by media.

Because A-share IPO has high entry barriers and long processes, the CSRC hopes that the “Third Board” may serve as an intermediate choice for small enterprises, especially those in TMT and other emerging sectors.

Major benefits of “Third Board” quotation include:

Lower entry barrier. The only 'must-have' requirement for Third Board quotation is the company must have meaningful operations and at least two years history of existence. Any restructuring, M&A or change of controlling shareholder does not affect the validity of its history of existence before that event. There is no requirement for revenue, earnings, asset and equity.

Shorter process. Third Board quotation does not require CSRC approval. It only requires registration at the NEEQ and the Securities Association of China (SAC). The longest period of registration is 50 working days. In practice, companies usually spend less than six months to go over the whole quotation process.

Access to re-financing. The Third Board quoted companies can raise money by issuing new stocks, given that total number of shareholders does not exceed 200 after the issuance. Meanwhile, Third Board quotation status may greatly improve the companies’ capability to borrow from banks.

Potential for a Chinext IPO. In March 2015, CSRC Chairman Xiao Gang indicated that it would be possible for Third Board quoted companies to transfer to Chinext, and the “exploration” may begin by the end of 2015. Although there are no details yet, it is possible that the Third Board quoted companies could transfer to Chinext when they meet Chinext IPO requirements.

As a result, we believe the smaller VIE-structured Chinese companies, especially internet firms, will choose to be quoted on the Third Board first and gain immediate access to public funds. It might be easier for them to transfer from Third Board to Chinext than to launch a full-scale A-share IPO from the very beginning. In fact, many VIE-structured companies have already been trying this way, and we may see more such actions later this year.

Companies Mentioned *(Price as of 09-Jun-2015)*

21 Vianet Group Inc (VNET.OQ, $19.98)
500.Com (WBAI.N, $25.39)
51job Inc. (JOBS.OQ, $31.48)
58.com Inc. (WUBA.N, $81.11)
AirMedia (AMCN.OQ, $6.95)
Alibaba Group Holding Limited (BABA.N, $87.8)
Autohome Inc. (ATHM.N, $45.14)
Baidu Inc (BIDU.OQ, $202.75)
Baozun (BZUN.OQ, $11.48)
Bitauto Holdings Limited (BITA.N, $59.9)
CMGE (CMGE.OQ, $20.03)
Changyou.com Ltd (CYOU.OQ, $31.3)
Cheetah Mobile Inc (CMCM.N, $31.7)
ChinaCache (CCIH.OQ, $12.48)
Citadel Brdcstg (CDELB.PK^I11, $33.5)
Ctrip.com International (CTRP.OQ, $74.79)
E-House China Holdings Ltd (EJ.N, $7.02)
Global Sources (GSOL.OQ, $5.23)
JD.com (JD.O, $36.23)
JD.com, Inc. (JD.OQ, $36.47)
Jiayuan (DATE.OQ, $7.24)
Jumei International Holding Limited (JMEI.N, $22.42)
KongZhong (KZ.OQ, $6.64)
Ku6 Media (KUTV.OQ, $1.28)
Leju Holdings Limited (LEJU.N, $8.54)
Momo Inc. (MOMO.OQ, $16.09)
Momo.com Inc (8454.TW, NT$268.0)
NetEase.com (NTES.OQ, $143.89)
New Oriental Education (EDU.N, $24.02)
Perfect World Co Ltd (PWRD.OQ, $19.895)
Qihoo 360 Technology Co. Ltd. (QIHU.N, $61.94)
Qunar (QUNR.OQ, $50.38)
Sina Corporation (SINA.OQ, $56.66)
Sky-mobi (MOBI.OQ, $4.51)
SouFun (SFUN.N, $8.56)
Sungy Mobile Limited (GOMO.OQ, $4.66)
TAL Education Group (XRS.N, $36.01)
TAL International Group (TAL.N, $35.21)
THE9 Ltd (NCTY.OQ, $1.32)
Taomee Holdings (TAOM.K, $3.43)
Tarena International, Inc. (TEDU.OQ, $11.74)
Tuniu Corporation (TOUR.OQ, $18.21)
Vipshop Holdings Limited (VIPS.N, $23.75)
Weibo Corporation (WB.OQ, $19.02)
Xueda (XUE.N, $3.66)
Xunlei (XNET.OQ, $10.25)
YY INC. (YY.OQ, $71.53)
Youku Tudou Inc. (YOKU.N, $29.67)
Zhaopin Limited (ZPIN.N, $14.96)
eLong (LONG.OQ, $18.68)
iDreamSky Technology Limited (DSKY.OQ, $10.47)

Disclosure Appendix

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Neutral/Hold*	39%	(50% banking clients)
Underperform/Sell*	16%	(44% banking clients)
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Companies Mentioned *(Price as of 09-Jun-2015)*

East Money Information Co Ltd (300059.SZ, Rmb84.85)

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