

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

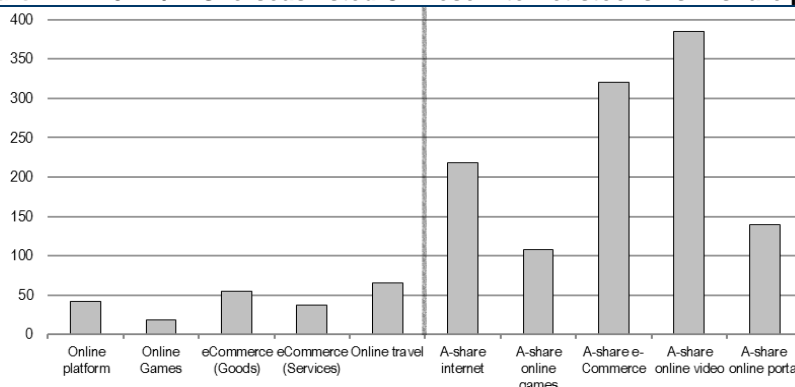
Contribution by
Archibald Pei

*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



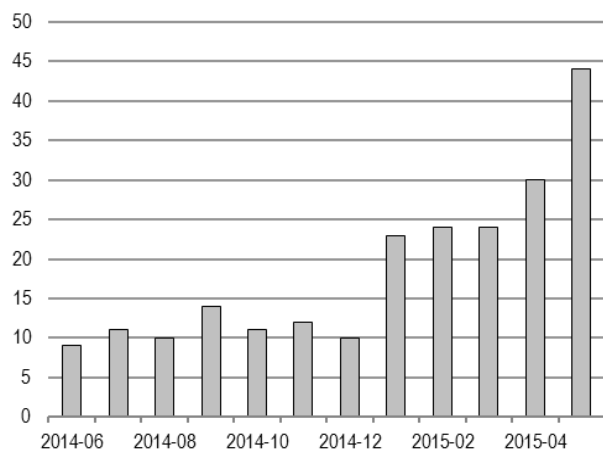
Source: Company data, Wind, Credit Suisse estimates

- **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: (1) tear down the VIE (variable interest entity) structure and re-IPO, (2) tear down the VIE structure and backdoor listing. 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: (3) Dual-listing: A-share IPO as an offshore company, (4) Dual-listing: A-share IPO as an onshore company.
- **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.

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

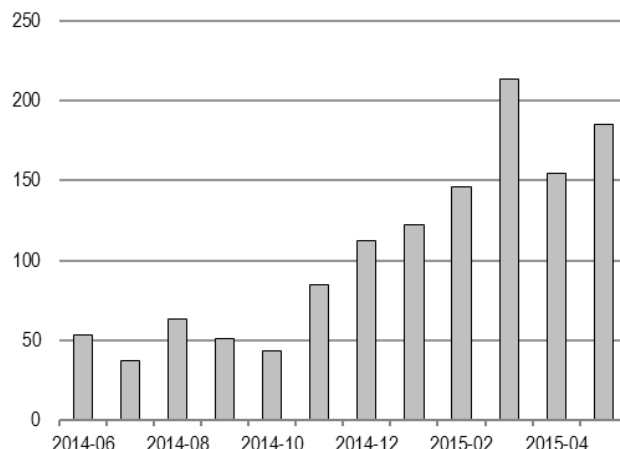
Focus charts and tables

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 (%)	Privatisat ion 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

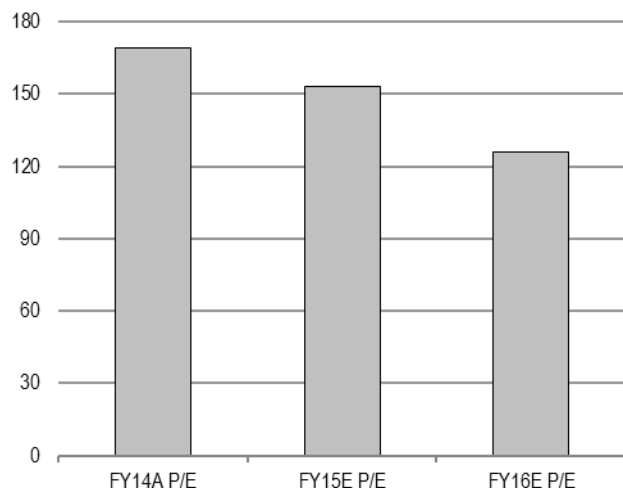
Name	Date offer received	Premium (%)*
Perfect World	January 2, 2015	25.7%
Jiayuan	March 3, 2015 (June 9 updated)	55.2% (updated)
Sungy Mobile	April 13, 2015	8.9%
Xueda	April 20, 2015	19.9%
Wuxi Pharma	Apr 30, 2015	16.46%
CMGE	May 18, 2015	5.5%
Taomee	June 1, 2015	20.0%
Average		21.7%

Source: Company press releases.

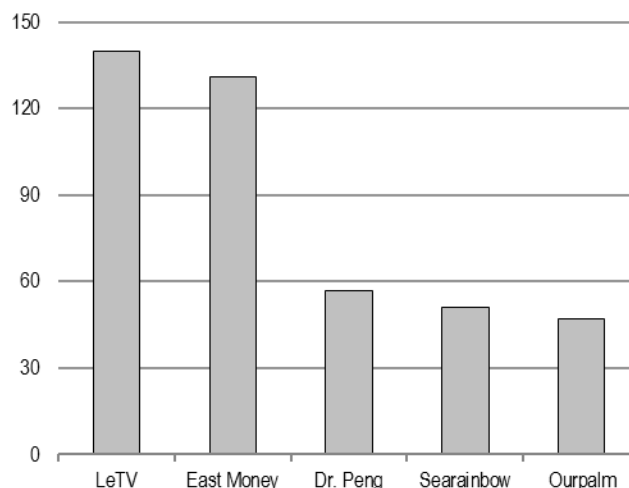
*Note: premium based on offer price vs. share price the day before announcement.

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.

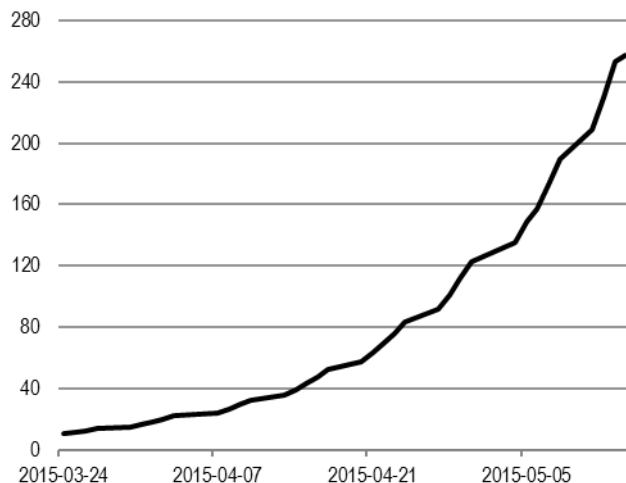
Figure 8: Average valuation of A-share internet stocks

Source: Wind

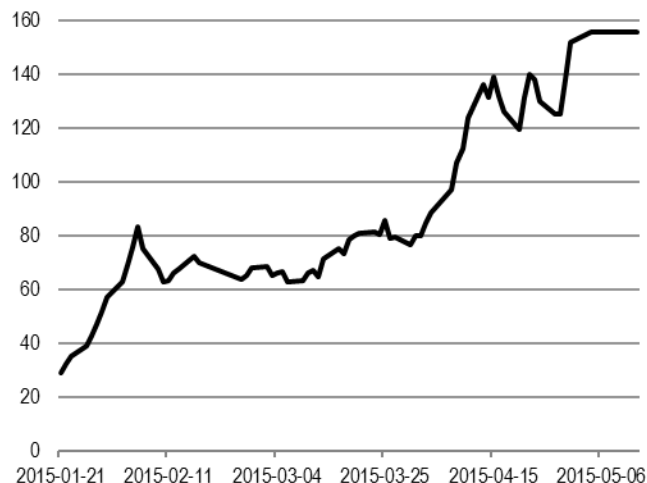
Figure 9: Largest A-share internet stocks (Rmb bn)

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

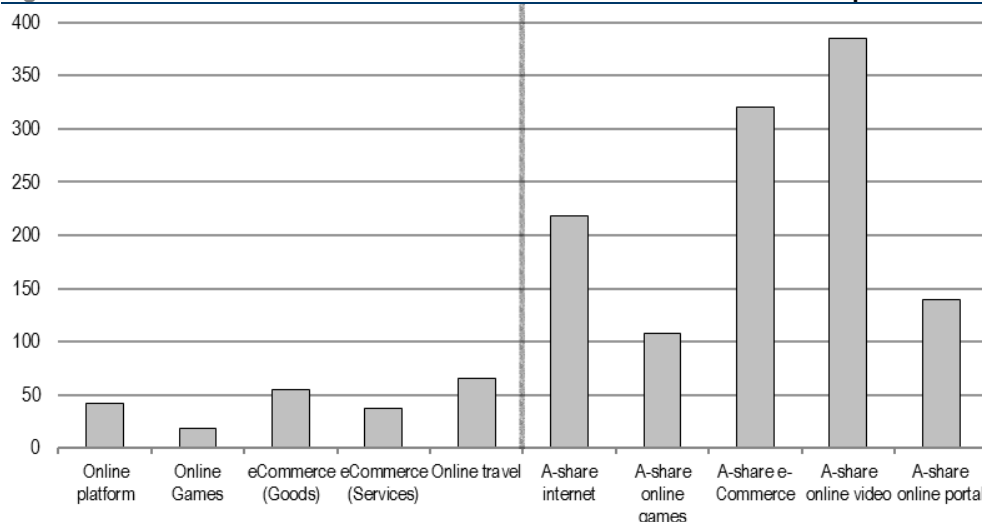
Figure 11: Kunlun Tech's performance after IPO

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.

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.

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:

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

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

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\$m)	14A P/E	Net cash % of mkt cap	Free float (%)	Privatisa tion 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

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 acquirer 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.

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.

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

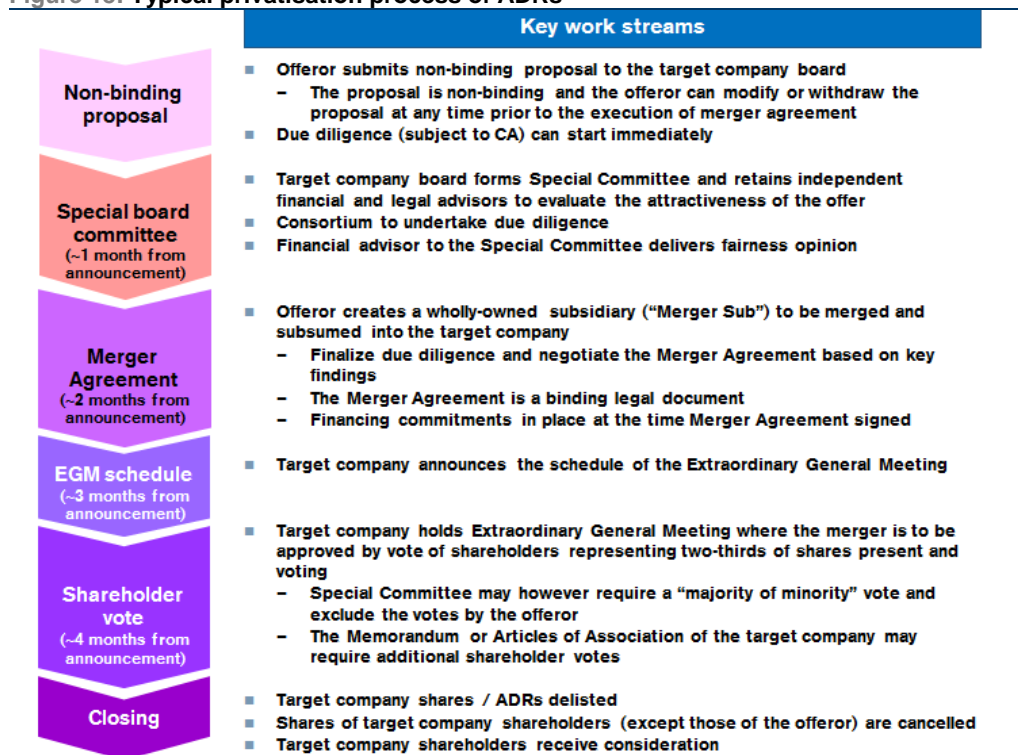
Source: Credit Suisse

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.

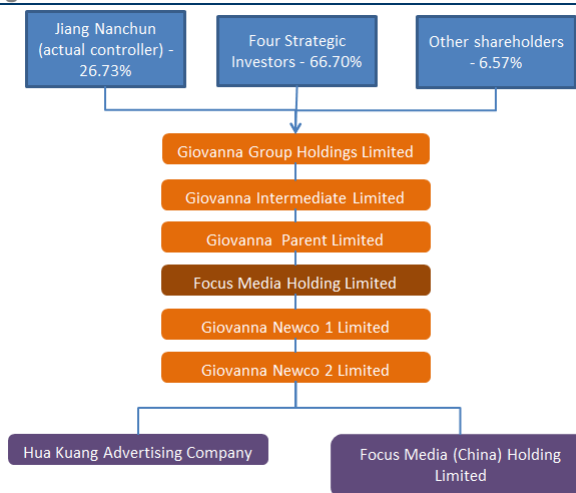
However, under the current regulatory framework, the acquirers need to wait for another three years before their A-share IPO proposals are considered. As a result, associated risks can be very high. Although the A-share market is hot now, who can ever guarantee that things will be the same after three 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.

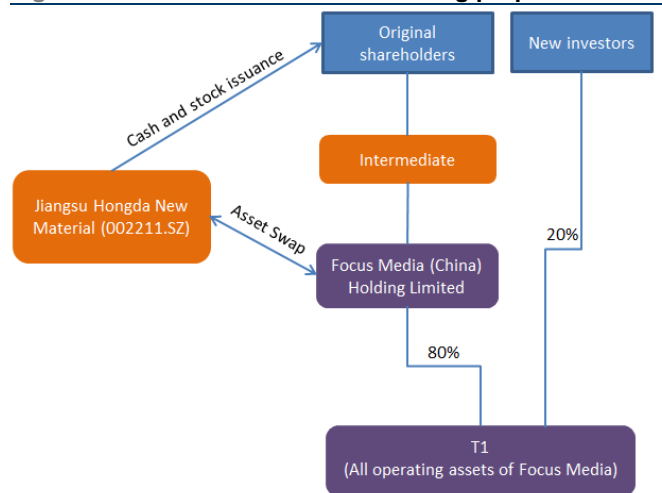
Before the restructuring, Focus Media had a standard VIE structure: the company’s operating assets are in Focus Media (China) Holding Limited (FMCH) and Hua Kuang Advertising, two onshore companies. They are, through six layers of intermediate companies, most of which are registered either in Cayman 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

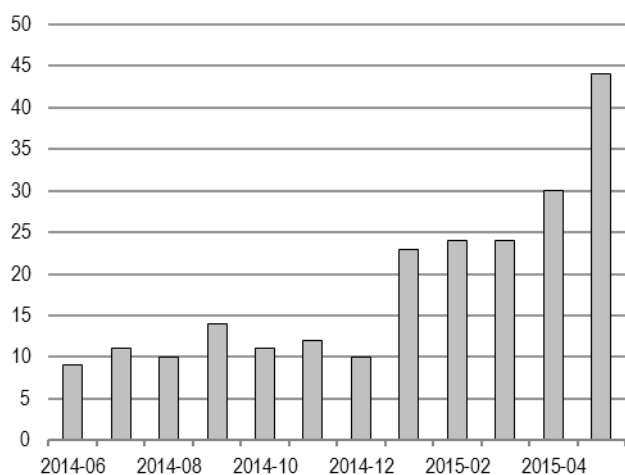
A-share IPOs resumed in June 2014 and will likely get to full speed in 2H15, thanks to the great bull market. During the last 12 months, 53% of A-share IPO listings were for either the SME board or the Chinext. The regulators have been talking about a change from “examination and approval system” to “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.

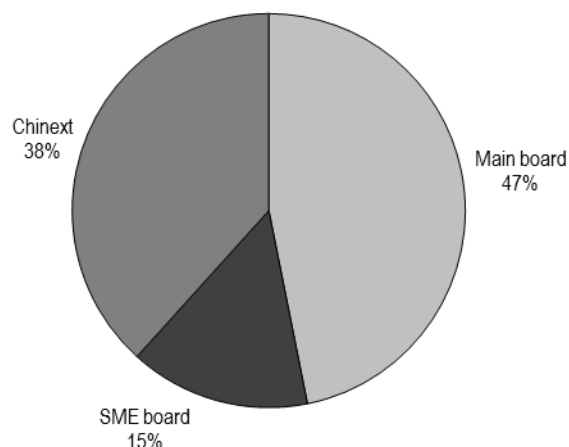
During the last twelve months, 47% of A-share IPO listings were for the main board (SSE), and 53% of them were for either the SME board or the Chinext (both are parts of SZSE). Almost all internet stocks have been listing on the SME board or the Chinext, due to their high-growth nature. In fact, the 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

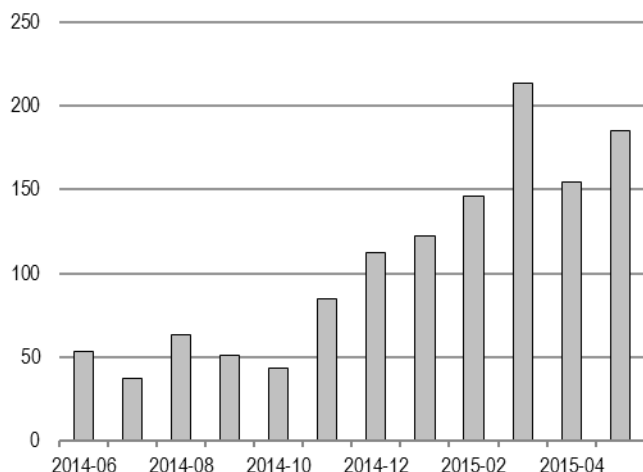
Figure 22: Majority of A-share IPOs are on SME or Chinext



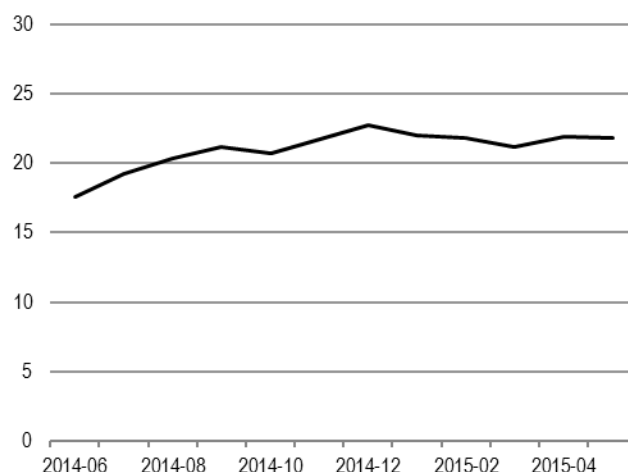
Source: Wind

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 (CCH.OQ, \$12.48)
Citadel Brdcstg (CDELB.PK^11, \$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

Important Global Disclosures

Dick Wei, Evan Zhou and Jialong Shi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within*

an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(53% banking clients)
Neutral/Hold*	39%	(50% banking clients)
Underperform/Sell*	16%	(44% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names

The subject company (CTRP.OQ, WUBA.N, MOMO.OQ, YOKU.N, VNET.OQ, JD.OQ, WB.OQ, XRS.N, QIHU.N, CMCM.N, ZPIN.N, EJ.N, EDU.N, JOBS.OQ, BABA.N, JMEI.N, DSKY.OQ) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (WUBA.N, MOMO.OQ, WB.OQ, QIHU.N, CMCM.N, ZPIN.N, EJ.N, EDU.N, JOBS.OQ, BABA.N, JMEI.N, DSKY.OQ) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (WUBA.N, MOMO.OQ, QIHU.N, ZPIN.N, BABA.N, DSKY.OQ) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (WUBA.N, MOMO.OQ, WB.OQ, QIHU.N, CMCM.N, ZPIN.N, EJ.N, EDU.N, JOBS.OQ, BABA.N, JMEI.N, DSKY.OQ) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (CTRP.OQ, WUBA.N, MOMO.OQ, YOKU.N, VNET.OQ, JD.OQ, WB.OQ, XRS.N, QIHU.N, CMCM.N, ZPIN.N, EJ.N, EDU.N, JOBS.OQ, BABA.N, VIPS.N, JMEI.N, DSKY.OQ) within the next 3 months.

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (XRS.N, QIHU.N, CMCM.N, EJ.N, JOBS.OQ, JMEI.N).

Credit Suisse has a material conflict of interest with the subject company (EJ.N) . Credit Suisse is an exclusive financial advisor to the Special Committee of Independent Directors of China Real Estate Information Corporation's board of directors relating to the proposed going private transaction by E-House (China) Holdings Limited

Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (CTRP.OQ, WUBA.N, MOMO.OQ, YOKU.N, VNET.OQ, JD.OQ, WB.OQ, XRS.N, QIHU.N, CMCM.N, ZPIN.N, EJ.N, EDU.N, JOBS.OQ, BABA.N, VIPS.N, JMEI.N, DSKY.OQ) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit <https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html>.

Credit Suisse has acted as lead manager or syndicate member in a public offering of securities for the subject company (WUBA.N, MOMO.OQ, YOKU.N, QIHU.N, CMCM.N, ZPIN.N, EJ.N, JOBS.OQ, BABA.N, DSKY.OQ) within the past 3 years.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Credit Suisse (Hong Kong) Limited Dick Wei ; Evan Zhou ; Jialong Shi

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

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

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

Disclosure Appendix

Important Global Disclosures

The persons primarily responsible for this research report certify that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies and securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(53% banking clients)
Neutral/Hold*	39%	(50% banking clients)
Underperform/Sell*	16%	(44% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit <https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html>.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

The non-U.S. persons, Dick Wei, Archibald Pei, are not registered/qualified as research analysts with FINRA. They are not associated persons of CSSU and therefore are not subject to NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Credit Suisse Founder Securities Limited is a joint venture established in the People's Republic of China between Credit Suisse AG and Founder Securities Co, Ltd.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: https://www.credit-suisse.com/who_we_are/en. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahman Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This information is being distributed by Credit Suisse AG, Dubai Branch, duly licensed and regulated by the Dubai Financial Services Authority (DFSA), and is directed at Professional Clients or Market Counterparties only, as defined by the DFSA. The financial products or financial services to which the information relates will only be made available to a client who meets the regulatory criteria to be a Professional Client or Market Counterparty only, as defined by the DFSA, and is not intended for any other person. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2015 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.