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## **B.A.T: (Baidu, Alibaba, Tencent)**

An Overview of the Big Three  
Chinese Internet and E-Commerce  
Companies.





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**KraneShares is dedicated to raising awareness of  
opportunities in China's economy & capital markets among  
global investors**

## Baidu – Alibaba – Tencent (BAT)

- BAT companies generated revenue of \$20 billion in 2013<sup>1</sup> and \$8.16 billion in Q3 2014.<sup>2</sup>
- The aggregate market value of the three companies equals \$473 billion.<sup>3</sup>
- The companies are internet and e-commerce ecosystems involved in both distinct and competing markets.
- The BAT core businesses are distinct: Baidu – search, Tencent – games & instant messaging (IM), Alibaba (e-commerce).
- They increasingly compete with one another.
- Boutique firms have carved out niches that allow them to compete with BAT or partner with them to leverage their core business' audience.



1.) Source: Baidu and Tencent 2013 annual reports, Alibaba SEC initial public offer filing (May, 06, 2014)

2.) Baidu, Alibaba, Tencent Q3 2014 earnings reports

3.) Source: Based on January 20, 2014 market cap from Bloomberg



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# BAT & Beyond





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## **Baidu Is The Largest Website In China & Fifth Largest Website Globally. It is the leading Chinese Language Internet Search Provider.<sup>1</sup>**

### **Robin Li's Official Biography<sup>2</sup>**

Robin Yanhong Li is co-founder, chairman and chief executive officer of Baidu, and oversees Baidu's overall strategy and business operations. Mr. Li has been serving as the chairman of the board of directors since the company's inception in January 2000 and as the chief executive officer since January 2004.

Mr. Li served as the president from February 2000 to December 2003. Prior to founding the company, Mr. Li worked as a staff engineer for Infoseek, a pioneer in the internet search engine industry, from July 1997 to December 1999. Mr. Li was a senior consultant for IDD Information Services from May 1994 to June 1997.

Mr. Li currently serves as an independent director and chairman of the compensation committee of New Oriental Education & Technology Group Inc., a NYSE-listed company that provides private educational services in China. Mr. Li also acts as the vice chairman of the Internet Society of China (ISC). Mr. Li has also been a vice chairman of All-China Federation of Industry & Commerce since December 2012.

Mr. Li received a bachelor's degree in information science from Peking University in China and a master's degree in computer science from the State University of New York at Buffalo.

Source: <sup>1</sup> Baidu's 2013 Annual Report as sourced from Alexa.com as measured by average daily visitors <sup>2</sup> Baidu's 2013 Annual Report

Photo Source: "Robin Atlas <http://baike.baidu.com/picture/2375/2375/0/314e251f95cad1c8f698ac317c3e6709c93d5180?fr=lemma&ct=single>.

Licensed under Creative Commons Attribution 2.0 via Baike Baidu File:314e251f95cad1c8f698ac317c3e6709c93d5180.gif

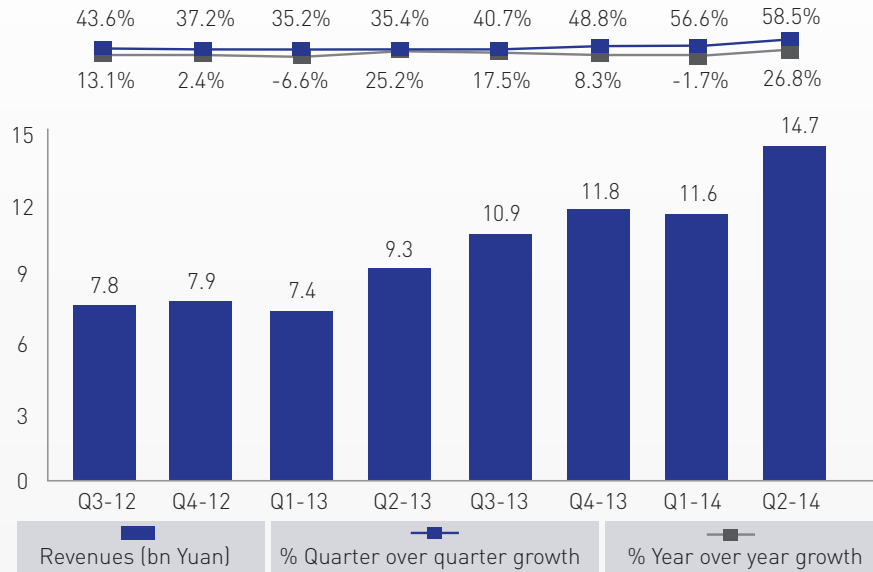


**Robin Li 李彦宏**  
**Baidu Co-Founder**



## While search revenue rises, Baidu has historically generated more revenue than its peers

**China Search Engine Market Revenues  
Q3 2012 – Q2 2014**



Note: Revenues of search engine companies refer to the sum of revenues of search engine operators, excluding the revenues of search engine channel agents.

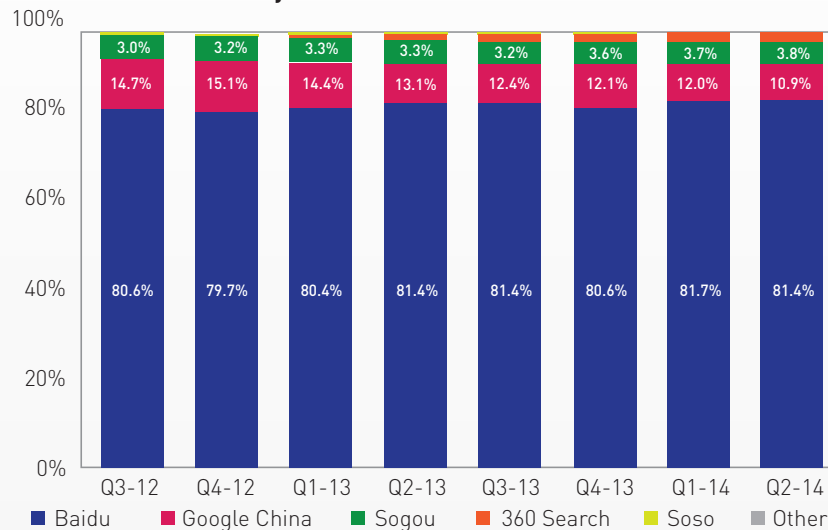
Source: the financial results published by enterprises, interviews with experts and iResearch statistical model.

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www.iresearchchina.com

Source: iResearch's Rapid Development of Mobile Devices Boosts Search Market Growth, Nov 2014

**Shares of China Major Search Engine Companies  
By Revenues Q3 2012 – Q2 2014**



Note: Revenues of search engine companies refer to the sum of revenues of search engine operators, excluding the revenues of search engine channel agents.

Source: the financial results published by enterprises, interviews with experts and iResearch statistical model.

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## The Baidu Eco-System

### Search

- Baidu Search Engine
- Qunar (online travel search and deals)
- Nuomi (entertainment, dining, health, and beauty services)

### Social-Networking Products

- Baidu Space (a Facebook-like personalized website)
- Baidu Album (cloud based photo sharing and storage)

### Knowledge Products

- Baidu Know (a Wikipedia-like information sharing)
- Baidu Encyclopedia
- Baidu Wenku (Similar to Google Drive or Drop Box)

### Location Based Products & Services

- Baidu Maps
- Baidu Navigation
- Baidu Travel

### Entertainment

- IQiyi (online video platform)
- Baidu Music (digital music service)

### Security Products

- Baidu Anti-Virus

### Mobile Related

- 91 Wireless (mobile games)

### Developers and Webmasters

- Baidu Open Cloud

### Other

- Baidu Wallet (online and mobile payment service similar to PayPal)

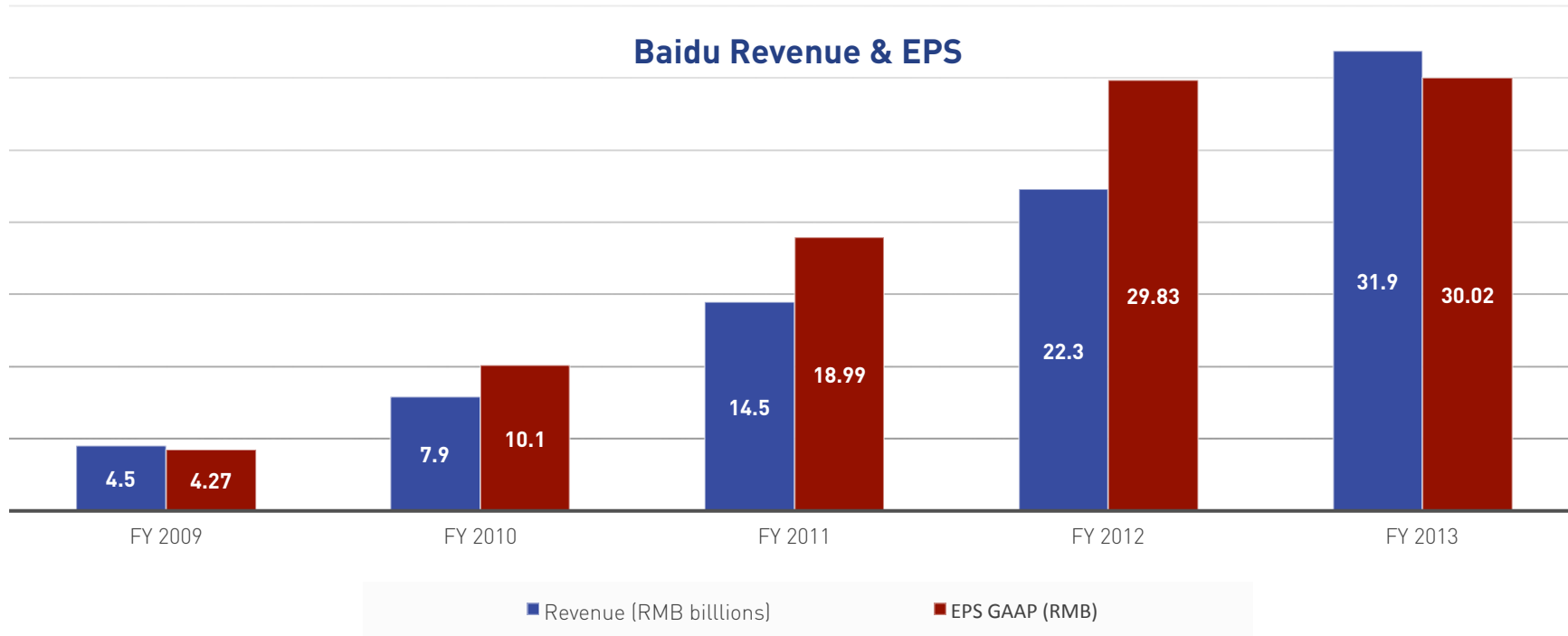


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## Baidu Has Historically Delivered Strong Results

Baidu Revenue & EPS



Source: Bloomberg, EPS = Earnings Per Share, GAAP = Generally Accepted Accounting Principles, RMB = China's Currency





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## Tencent's Instant Messaging Platforms Have 438 million Users<sup>1</sup>

### Huateng (Pony) Ma's Official Biography<sup>2</sup>

Pony Ma, one of the Core Founders, Executive Director, Chairman of the Board and Chief Executive Officer of Tencent. Pony oversees the strategic development, overall direction and management of the Group. Before he founded Tencent in 1998, Pony was in charge of research and development for Internet paging system development at China Motion Telecom Development Limited, a telecommunications services and products provider in China. He has over 20 years of experience in telecommunication and Internet industries. Pony received his Bachelor of Science degree in Computer Science from Shenzhen University in 1993.

Source: 1.) Tencent's 2014 Interim Report as of quarter ended June 2014,  
2.) According to Global Web Index

Photo Credit "Ma Atlas", <http://baike.baidu.com/picture/2365/2365/0/342ac65c10385343ec31fa119013b07eca808807?fr=lemma&ct=single>.  
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**Ma Huateng 马化腾**  
**Tencent Core Founder**

## The Tencent Eco-System

### Social Networks

- QQ – PC & Mobile IM
- Weixin/WeChat – Mobile IM, Voice Message, Personal home page
- Tencent Microblog
- Qzone – Personal home page, Blog, Games

### Online Games

- Mini Casual Games
- Advanced Casual Games
- Multiplayer Online Games
- Web Games
- Mobile Games

### E-Commerce

- JD.com (Partnership)
- Tenpay – PayPal-like service
- Online to Offline (O2O)

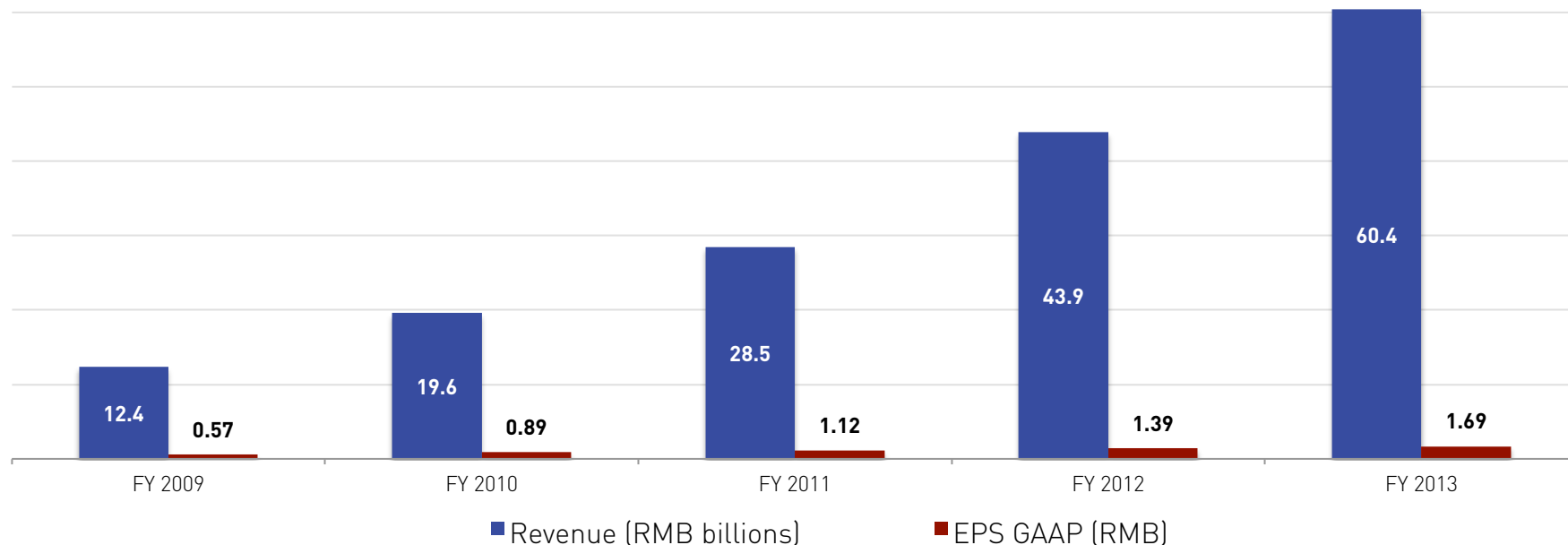
### Content & Online Entertainment

- Sogou
- Tencent News
- QQ Music
- QQ Mail
- Tencent Video



## Tencent Has Historically Delivered Strong Results

Tencent Revenue & EPS



Source: Bloomberg, EPS = Earnings Per Share, GAAP = Generally Accepted Accounting Principles, RMB = China's Currency



## Beyond BAT – Boutiques Partnering With or Competing

### Online Travel

- C-Trip
- Qunar – Baidu Partner
- Elong

### Online Auto Sales

- Bitu
- Autohome

### E-Commerce

- JD.com – Tencent Partner
- Vipshop
- E-Commerce China Dang
- Lightinthebox

### Email

- Netease

### Search

- Qihoo 360

### News

- Sina
- Sohu

### Online Videos

- Youku - Alibaba Partner
- V1 Group

### Anti-Virus

Kingsoft – Tencent Partner

### Online Gaming

- YY
- Perfect World
- Shanda Games

### Real Estate

- Soufun

### Job Search

- 51 Jobs

### Comprehensive Provider

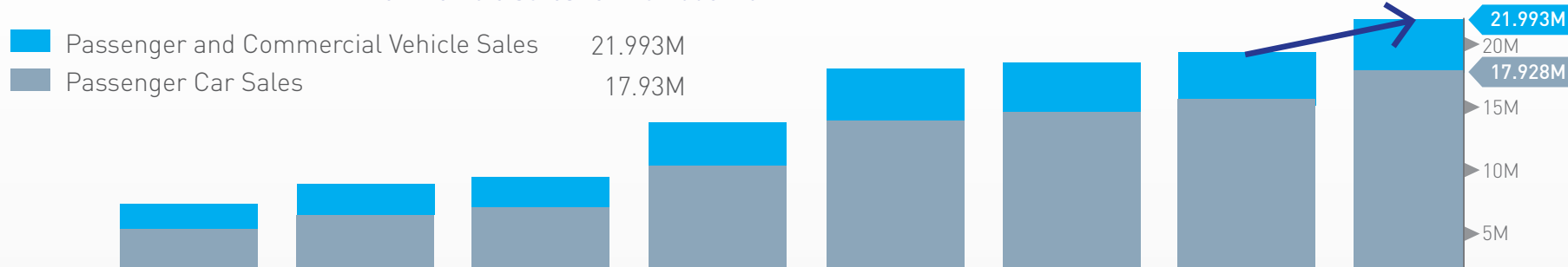
- 58.com – Tencent Partner



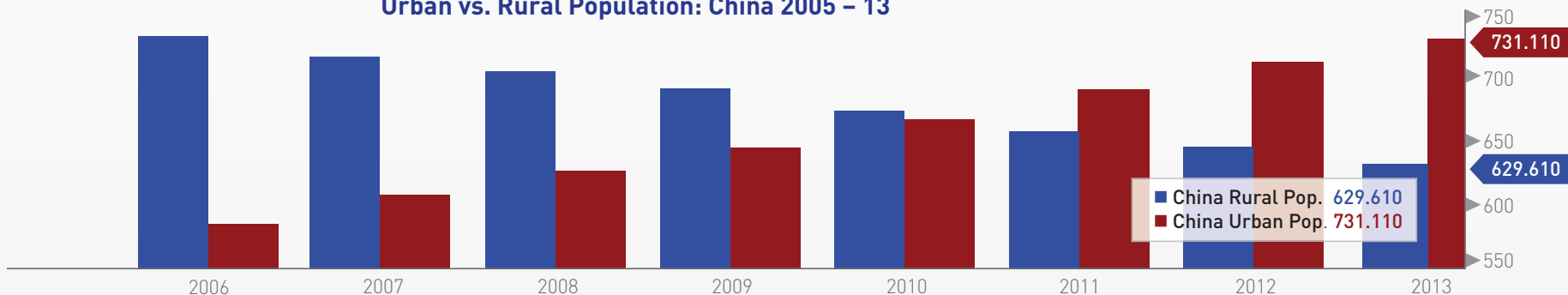
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## Automotive Sales Have Benefitted From Increased Urbanization

New Vehicle Sales: China 2005-13



Urban vs. Rural Population: China 2005 – 13



CNVSTTL Index [China Automobile Sales Model Type Total] China Urbanization Year ©Bloomberg Finance L.P 18-Sep-2014

Source: Bloomberg, China Automotive Information Net, National Bureau of Statistics China, Sep 2014.



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## Chinese Tourism Is Growing As Evidenced By Airline Travelers Both Domestic & Internationally (Chart In Millions)

Airline Passengers In Millions On A Monthly Basis,  
Includes Domestic and International Travel

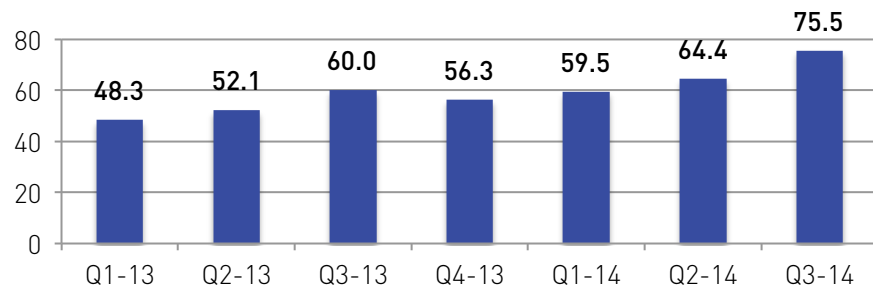


Source: Bloomberg, Sep 2014

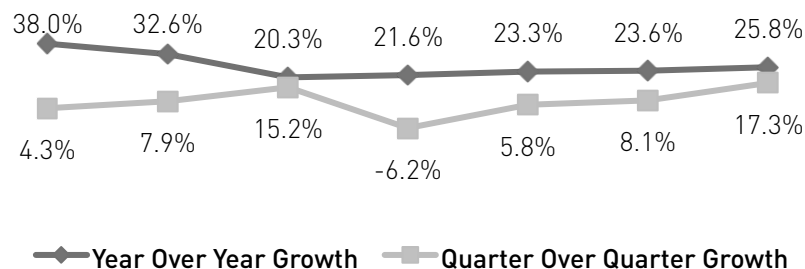


## The Gross Merchandise Value (GMV) Has Risen Due to Increased Domestic and International Travel

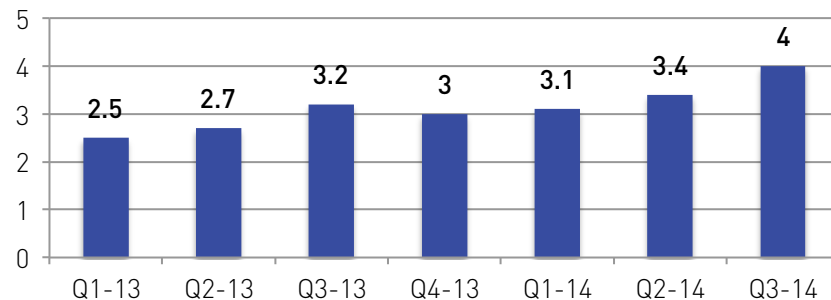
**Gross Merchandise Value (GMV) of China Online Travel  
Q1-Q3 2014**



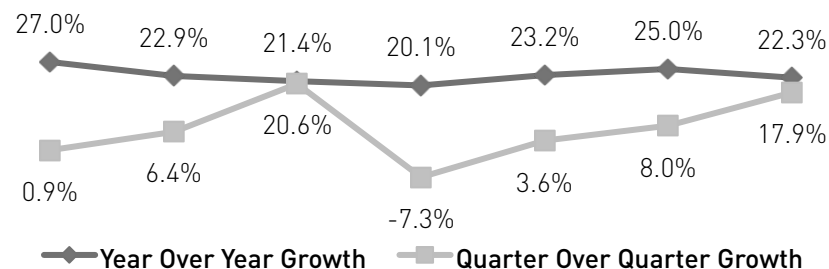
■ GMV of China Online Travel (bn Yuan)



**Revenues of China online travel agencies (bn Yuan)**



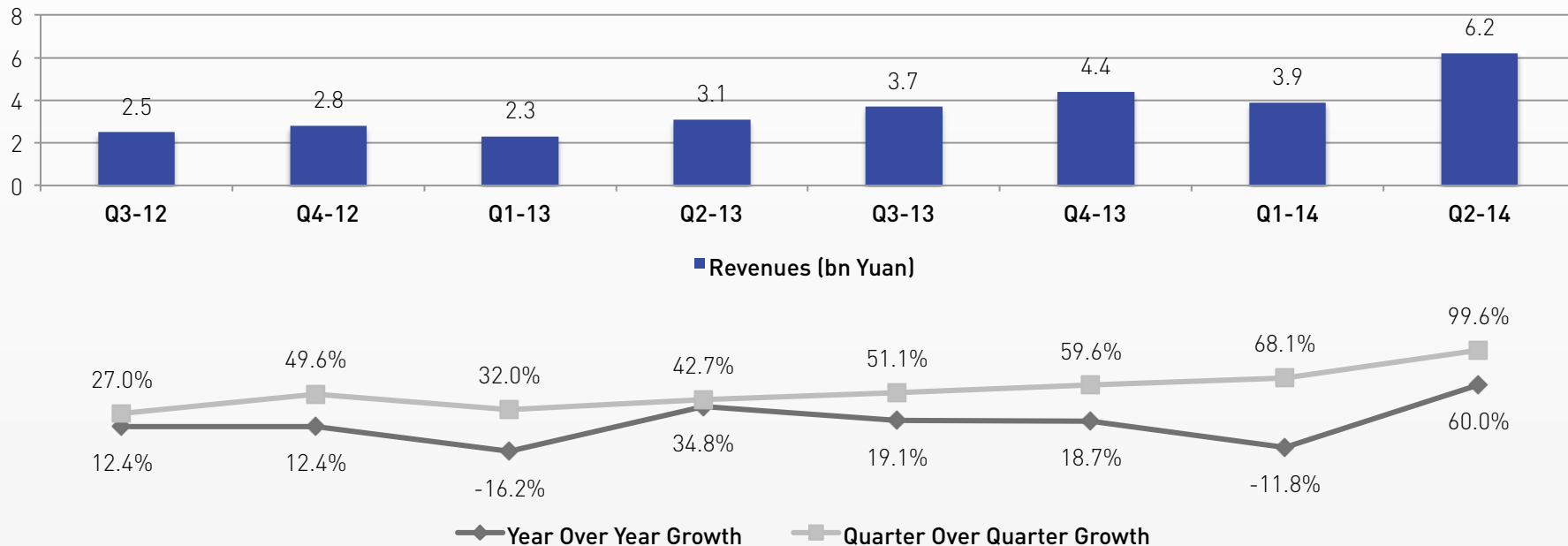
■ Revenues of China online travel agencies (bn Yuan)





## Smartphones Are the Primary Source of Entertainment in China

China Online Video Revenues Q3 2012 – Q2 2014





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## Trends Benefiting BAT & Beyond

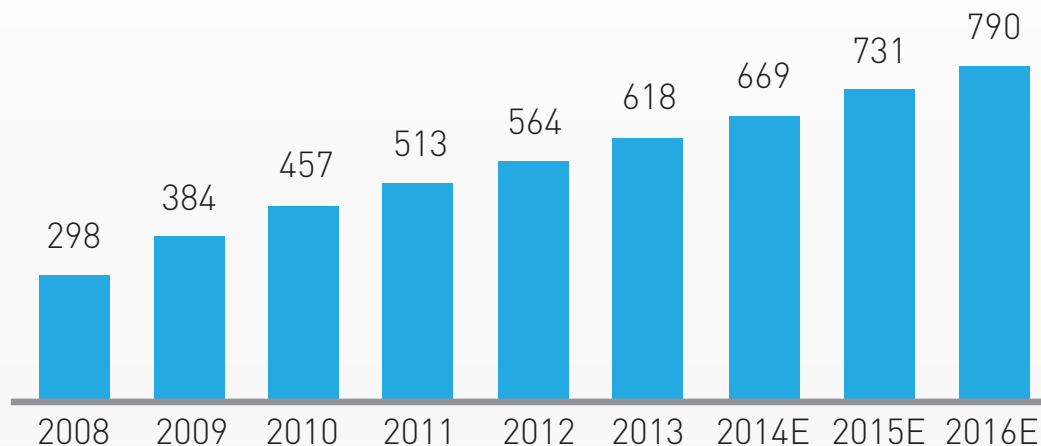
Urbanization

Domestic Consumption

Internet Adoption

Mobile and Smartphone Usage

## China Internet user population (in millions)





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Top Ten Holdings As of 12/31/2014.	Symbol and Exchange	%
ALIBABA GROUP HOLDING ADR	NYSE: BABA	10.097
TENCENT HOLDINGS LTD	HK: 0700	8.614
BAIDU.COM, INC. ADR	NASDAQ: BIDU	8.156
JD.COM INC-ADR	NASDAQ: JD	7.001
NETEASE.COM INC ADR	NASDAQ: NTES	6.15
CTRIP.COM INT'L ADR	NASDAQ: CTRP	4.098
SINA CORP	NASDAQ: SINA	4.093
YOUKU.COM INC ADR	NYSE: YOKU	4.058
QIHO 360 TECHNOLOGY LTD	NYSE: QIHU	3.887
VIPSHOP HOLDINGS LTD ADR	NYSE: VIPS	3.81

**For full fund holdings as of the close of the most recent business day please visit [kraneshares.com/kweb](http://kraneshares.com/kweb)**

**Holdings are subject to change**



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**Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' prospectus, which may be obtained by visiting [www.kraneshares.com](http://www.kraneshares.com) or by calling 1-855-8KRANE8.**

**Read the prospectus carefully before investing.**

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. The Funds focus their investments primarily with Chinese issuers and issuers with economic ties to China. The Funds are subject to political, social or economic instability within China which may cause decline in value. Fluctuations in currency of foreign countries may have an adverse effect on domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increase volatility and lower trading volume. Current and future holdings are subject to risk.

Narrowly focused investments and investments in smaller companies typically exhibit higher volatility. Internet companies are subject to rapid changes in technology, worldwide competition, rapid obsolescence of products and services, loss of patent protections, evolving industry standards and frequent new product productions. Such changes may have an adverse impact on performance.

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This is not an investment recommendation or a solicitation to become a client of Krane Fund Advisors, LLC ("Advisor").



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KWEB's investments in Alibaba are investments in variable-interest entities (VIEs), which are investments in foreign-domiciled American Depositary Receipts (ADRs). Rather than owning Chinese-domiciled entities, the VIEs have contractual arrangements designed to provide the economic benefits related to certain Chinese-domiciled companies. The structure of VIEs presents some unique risks that should be considered.

VIE structures do not give investors ownership in the operating company, as stock does. With a VIE, an investor has no direct claim on the core, restricted business assets of the VIE operating company. As a result, investors may not exert as much influence over the subject company as they could if they were owners of common stock. Often, the voting rights in the VIE operating company, especially in matters of corporate governance, are controlled by the principals who established the VIE operating company.

In addition, there is no guarantee as to the enforceability of the VIE structure, as it has never received explicit approval from the Chinese government and is recognized as a structure put in place principally to work around Chinese restrictions on foreign investment.





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**Thank You!**

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