Mainland Buyers: A New Performance Driver for China Internet

A new wave of inclusions in Stock Connect, a market link between Hong Kong and Mainland China, is giving millions of potential investors access to companies they use every day, like Alibaba.

Fall 2024

China Internet Quarterly Earnings Report

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Introducing The KraneShares Emerging Markets Internet & Consumer Technology ETF Suite

Growth / Long Only

KWEB

China Internet & Consumer Technology

KEMQ

Broad Emerging Markets Internet & Consumer Technology

Option Income

KLIP

KWEB Covered Calls providing monthly distributions*

Buffer

KPRO

Starting Characteristics
Downside Buffer: 100%
Upside Cap: 22.69%
Days to Period End: 708
Current Characteristics
Downside Buffer: 91.04%
Upside Cap: 11.70%
Days to Period End: 473

KBUF

Starting Characteristics
Downside Buffer: 90%
Upside Cap: 41.20%
Days to Period End: 708
Current Characteristics
Downside Buffer: 76.71%
Upside Cap: 24.38%
Days to Period End: 479

Data from KraneShares as of 9/30/2024. The caps and buffers mentioned above do not reflect the effect of fees.

KPRO and KBUF have characteristics unlike many other traditional investment products and may not be suitable for all investors. For more information regarding whether an investment in the Funds is right for you, please read the Funds' prospectuses, including "Investor Suitability Considerations."

***Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be higher or lower.**

Table of Contents

China Internet Recent Highlights

- Alibaba has been added to Southbound Stock Connect, opening the company's shares up to investors located in Mainland China after making its Hong Kong share class a dual-primary listing alongside New York, a requirement for inclusion in the mutual market access program.
- On September 24th, 2024, the People's Bank of China (PBOC) announced broad rate cuts, significantly lowered mortgagage minimum down payments, among other measures to shore up consumer sentiment. This is after China instituted a 15% consumer subsidy for 8 types of home appliances and nearly doubled the existing consumer subsidies for both electric and gas-powered vehicles following the Third Plenum in July.
- Alibaba has added Tencent's WeChat Pay as a payment method within its Taobao and Tmall E-Commerce platforms in China, which may help the platforms support more users and represents a welcome integration in China's vast digital payments ecosystem.
- Baidu's "Apollo Go" autonomous vehicle program switched to fully driverless operations in Wuhan, reducing costs by -50% year-over-year. Meanwhile, government ministers have adopted a more supportive tone towards the technology, saying they intend to

support its development and provide the latitudes necessary to increase coverage.

- According to China's National Bureau of Statistics (NBS), online retail sales increased +8.9% year-over-year (YoY) in August compared to an increase of only +2.1% for retail sales overall.
- Game developer ZX Inc. was added to KWEB in the second quarter. ZX operates under the name "Tan Wan" and boasts over 400 million registered users.[1]
- China Internet companies currently trade at, on average, a 40% lower earnings multiple compared to their US counterparts.[2]
- In this edition's theme highlight, we analyze the potential impact of more China internet stocks becoming available to local investors via Southbound Stock Connect.
- Walmart sold its remaining shares in JD.com on August 21, 2024, ending its long-term logistics and sales partnership with the E-Commerce giant after eight years. Walmart executives cited their strong and mature business in China and its ability to function independently as the reason for ending the relationship.[3]

KraneShares info@kraneshares.com +1 (212) 933 0393

KraneShares CSI China Internet ETF (Ticker: KWEB) Performance

Cumulative %	Data as of: 9/30/2024		
	Fund NAV	Closing Price	Index
3 Month	28.28%	25.91%	28.39%
6 Month	33.31%	29.60%	32.23%
Since Inception	63.96%	59.29%	65.97%

Avg Annualized %	Data as of quarter end: 9/30/2024		
	Fund NAV	Closing Price	Index
1 Year	29.13%	26.47%	28.08%
5 Year	-1.47%	-1.99%	-1.26%
10 Year	1.58%	1.30%	1.86%
Since Inception	4.52%	4.25%	4.64%

KWEB's gross expense ratio is 0.69%. Inception Date: 7/31/2013. KWEB Index is the CSI Overseas China Internet Index.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost, and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call +(1) 855 8KRANE8 or visit our website at www.kraneshares.com/kweb.

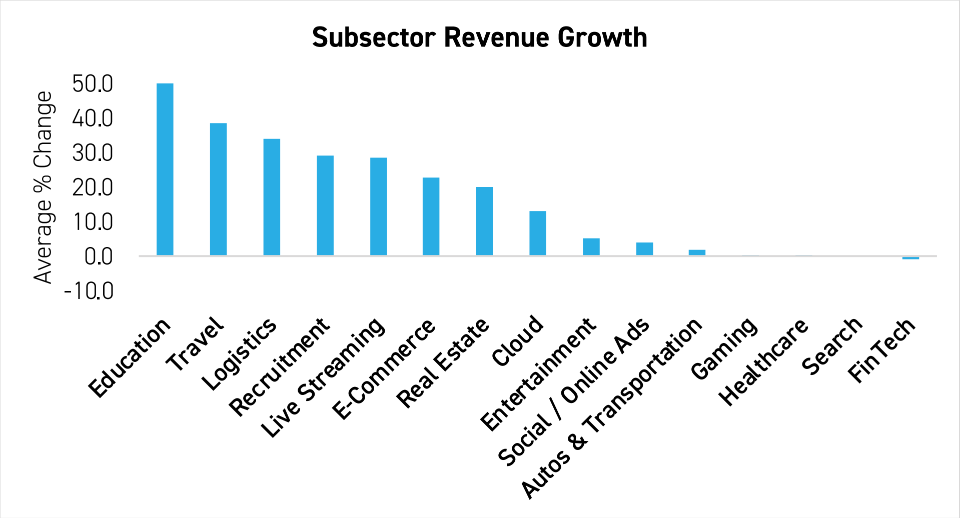
KWEB Top 10 Holdings Financials Summary

Data as of 6/30/2024.

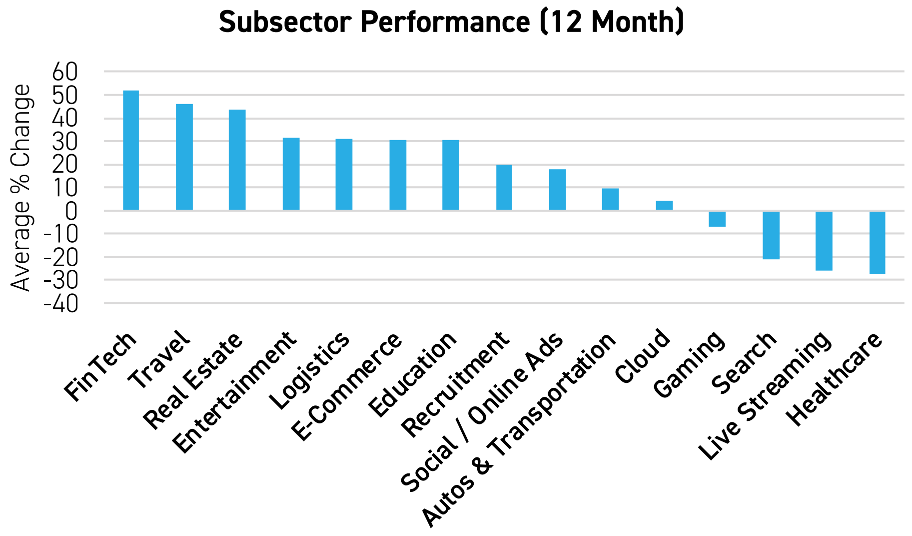
Top 10 KWEB Holdings	KWEB Weight (%)	Revenue ($ B)	Net Income ($ B)	Revenue Growth (%)	Net Margin (%)	Earnings per Share ($)
TENCENT HOLDINGS LTD	10.43	22.2	6.5	8	29	0.7
ALIBABA GROUP HOLDING LTD	9.00	33.6	4.5	4	13	1.8
PDD HOLDINGS INC	7.94	13.4	4.4	86	33	3.2
MEITUAN-CLASS B	7.30	11.4	1.6	21	14	0.3
JD.COM INC-CLASS A	5.65	40.2	1.9	1	5	1.2
NETEASE INC	4.40	3.5	0.9	6	26	1.4
TENCENT MUSI-ADR	4.14	1	0.2	-2	20	0.2
TRIP.COM GROUP LTD	4.03	1.7	0.5	29	29	0.7
KE HOLDINGS INC-ADR	3.86	3.2	0.3	20	9	0.1
KUAISHOU TECHNOLOGY	3.85	4.3	0.5	12	12	0.1
	Total			Weighted Average		Total
	60.60	134.5	21.3	20	20	9.7

Data from Bloomberg. Please see the end of the report for definitions. Figures are adjusted (non-GAAP) and % changes are year-over-year (YoY). Holdings are subject to change. Please see the end of the report for KWEB's top ten holdings as of the most recent quarter-end.

KWEB Key Metrics



Data from Bloomberg and KraneShares as of 6/30/2024.



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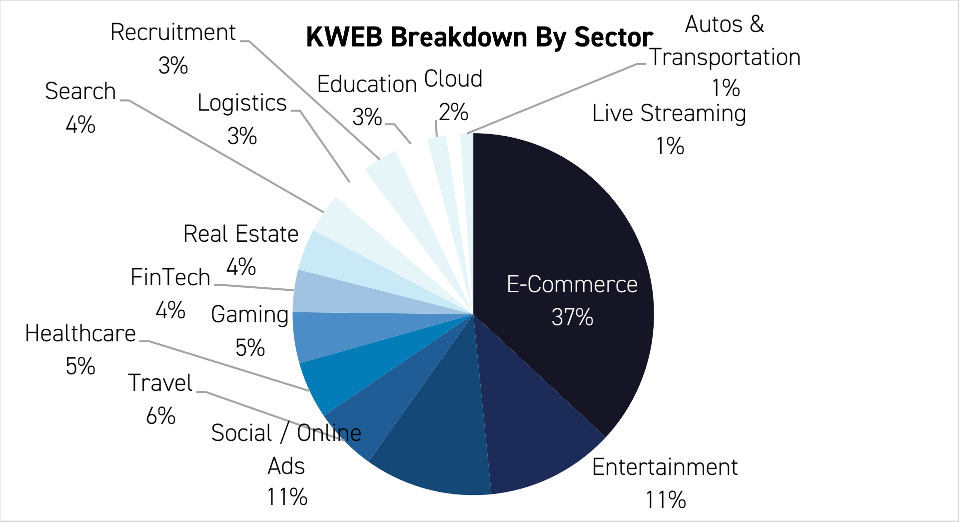
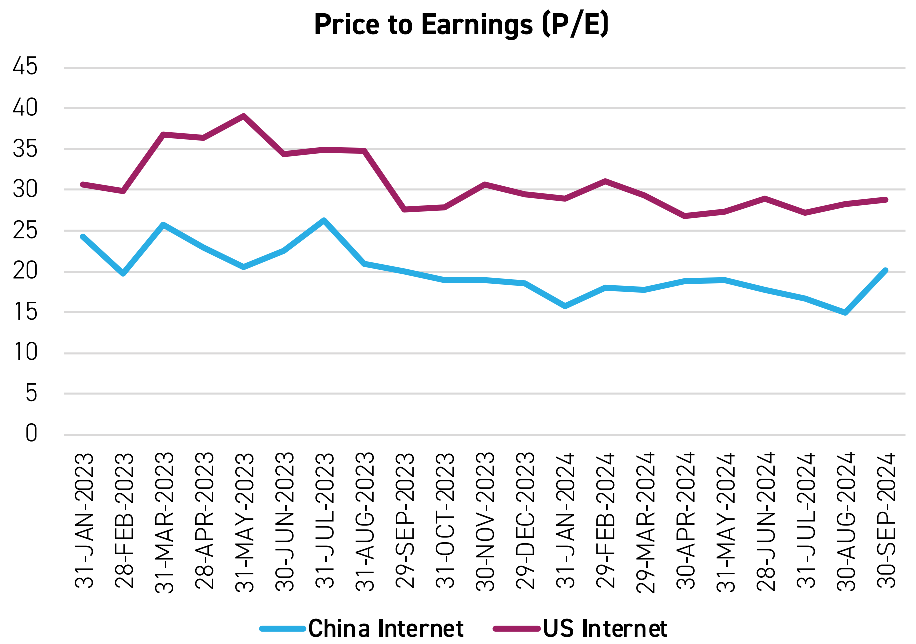


Data from Bloomberg and KraneShares as of 6/30/2024.



Data from FactSet as of 9/30/2024. Please see the end of the report for definitions.

Subsector Analysis

Sources: Bloomberg, CICC Research, The Benchmark Company, KraneShares. All % changes are year-over-year as of the second quarter of 2024, unless otherwise indicated.

Education saw the highest revenue growth in the first quarter: 50% on average. TAL Education, the subsector representative, saw the strongest growth in its "PAYO" small class offerings but also saw impressive growth in their learning devices business, which now includes a suite of devices with advanced AI capabilities.

Travel revenues increased by an impressive +39% in the second quarter as travel demand remains strong. Trip.com noted that international travel for China-originating customers is picking up significantly again, after a long post-pandemic slump. The platform added Irish budget airline Ryanair as an option for international travelers during the second quarter.

Logistics platform Full Truck Alliance increased its revenues by +34% in the second quarter. The platform reached a new record high for the number of shippers who made their first transactions within a quarter in the second quarter. Full Truck's monthly active shippers reached 2.65 million, up over +30%.

Recruitment platform Kanzhun increased revenues by +29% in the second quarter. The platform benefitted from strong demand for employment as policymakers prioritize lowering the unemployment rate, especially among young people and recent graduates.

Live Streaming companies delivered a solid +29% revenue increase in the second quarter. Live streaming juggernaut East Buy Holdings bid farewell to one of its most popular streamers, Dong Yuhui, during the quarter. However, despite the departure, East Buy management continues to believe in the organic strength of its live streaming E-Commerce platform, which has grown considerably over the past two years.

E-Commerce companies had mixed results in the second quarter as their revenues increased by a average of +23%. PDD continues to see heightened growth, though its first quarter results came in just shy of lofty expectations. Discount platform Vipshop experienced a revenue decline as management and analysts alike expressed concerns about increasing competition in an environment where overall sales of physical consumer goods are relatively flat.

Real Estate platform KE Holding grew its revenue by +20% as existing home transaction volume on its platform surged +70%, bucking the national trend. A significant relaxation of purchase restrictions in cities and municipalities across China has caused sales to pick up again.

Cloud provider Kingsoft increased its revenue by +13%. The company, which is most like Microsoft in the United States, offers not only cloud computing services, but also a suite of productivity tools. In the second quarter, the company continued to expand its offerings of AI-powered tools for enterprises. Kingsoft also recently launched a new version of its productivity suite called “WPS” tailored specifically to the needs of governments.

Entertainment revenues increased by a modest +5%. The subsector was led by Bilibili, which achieved a significant margin improvement and is edging closer to profitability driven by an increase in paid subscriptions.

Social media platforms Tencent and Weibo increased their revenues by an average of +4%. Tencent beat out Weibo with revenue growth of 9%

compared to 0% for Weibo. Advertisers have lowered their spending as China's economic recovery takes longer than expected, which we also discuss as a contributor to Baidu's lower growth rate in the second quarter.

Auto marketplace Autohome grew its revenues by a slight +2%. Despite the slow headline growth, the online car marketplace saw particular strength in sales of new energy vehicles (NEVs), used vehicle inspection and authentication services, seeing a +55% increase in inspections, and dealer data services, revenues from which increased +15%.

Gaming revenues were flat in the second quarter. NetEase noted increasing competition from smaller players in the market. A Tencent-backed gaming company released the immensely popular Black Myth: Wukong recently. The game achieved the second-highest concurrent players of any game previously released on Steam only hours after launch.[4]

Healthcare platforms saw flat revenue growth in the second quarter, though many report earnings only semiannually. Pharmaceutical sales, which drive most of the transactions in platforms such as YSB and Ali Health, in China have slowed over the past year due to a significant antigraft campaign in the hospital system. However, an executive from a leading medical devices company told KraneShares that the third quarter may see a pickup in sales of pharmaceuticals and medical devices as the campaign wraps up.

Search engine and AI pioneer Baidu's revenue was flat in the second quarter as advertisers spent less than last year on the platform. However, the company's Apollo Go autonomous driving unit reached a major milestone in Wuhan, where its fleet of robotaxis will now be permitted to operate throughout the city without a human in the driver's seat for added safety. According to the company, the unit is getting ever closer to profitability after becoming able to charge for rides just earlier this year.

FinTech was the only subsector with negative revenue growth in the second quarter, with an average decline of -1%. Lufax was the subsector laggard in terms of revenue growth. However, as we discussed with management, they are currently in the process of re-focusing their business on consumer lending as opposed to loans to small business owners (SBOs). As such, consumer finance loans increased +24% and now represent 49% of their total loan sales. We believe this bodes well for improvements in their overall revenue and profitability going forward, especially as consumer spending rebounds in China.

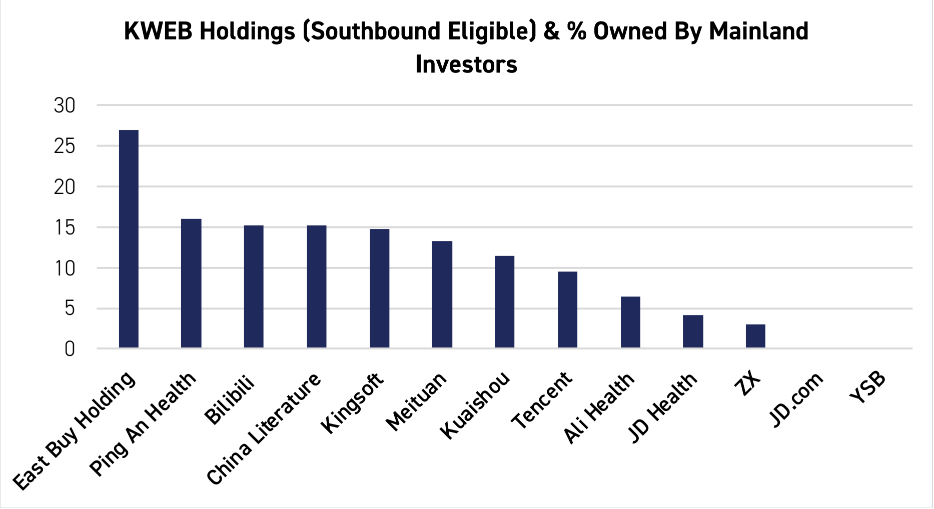
Theme Highlight – Mainland Buyers: A New Performance Driver For China Internet

Imagine living in America but not being allowed to buy stock in American companies like Amazon because they are listed overseas. This premise may sound farfetched, but for Mainland Chinese investors, it was a reality for over a decade when they wanted to buy Alibaba's stock. Alibaba and many other China internet companies historically chose to list on overseas exchanges, first in New York and then in Hong Kong, to avoid tighter regulatory hurdles and foreign ownership limits back home. These overseas listings have made China internet stocks virtually inaccessible to their core user demographic until now.

On September 10th, 2024, Alibaba's Hong Kong-listed shares became available for trading in Southbound Stock Connect, a mutual market access program between the Mainland exchanges (Shanghai and Shenzhen) and the Hong Kong Stock Exchange.

Alibaba was the latest among China's internet stocks to become available to Mainland investors via Southbound Stock Connect. However, 13 other

KWEB holdings are also available on the mutual access program. Their Mainland ownership levels through Southbound are generally high, reaching up to 25% of their total shares. Alibaba's inclusion and the potential for more names to be added could serve as a significant catalyst for China internet stocks. Moreover, the program's expansion diversifies these companies' investor bases to include local investors who are most familiar with the companies.



Data from HKEX and KraneShares as of 6/30/2024.

Potential Flow Momentum

We anticipate a high level of demand from participating investors in Southbound Stock Connect for Alibaba shares. Since it became available through the program less than one month ago, Mainland investors have snapped up over $5 billion worth of Alibaba's Hong Kong-listed shares. Assuming the company has a similar experience in the program as Tencent, ownership via Southbound could reach 10% of the company's market value.

With over 900 million users of Tmall and Taobao, mostly in Mainland China, Alibaba and/or its platforms are household names, much like Southbound veteran Tencent, which boasts over one billion users. Adjusting for Tencent's larger market capitalization and assuming a similar level of demand for shares from Mainland investors, we estimate that flows into Alibaba's shares via Southbound Stock Connect (SBC) could range from $10 to $30 billion.

One way to estimate the flows is to consider the ratio of Tencent's number of users to the percentage of its shares held through Southbound (SBC). Assuming the same ratio for Alibaba, this would suggest potential flows of $14 billion.

		Tencent	Alibaba (Potential Future Inflow Scenario)
App Users		1.35 Billion	**900 Million**
Southbound Ownership	**% of Market Cap in SBC**	10	**7**
	$ Billions	45	**14**

Data from Bloomberg and KraneShares as of 8/28/2024.

Another way is to assume that the same percentage of Alibaba's market capitalization is eventually held in Southbound as Tencent. Based on the companies' respective market caps at the end of July, this would suggest potential flows of $20 billion.

	Tencent	Alibaba (Potential Future Inflow Scenario)
% of Market Cap Owned in SBC	10	**10**
$ Billions	45	**20**

Data from Bloomberg and KraneShares as of 8/28/2024.

The Circle of Competence

Famed investor Warren Buffet has long said that smart investors focus on companies and industries with which they are intimately familiar when deciding where to put their money. He calls this concept the "circle of competence".

Alibaba is well within the "circle of competence" for Mainland China-based investors. Many people live their lives, almost, within the confines of the "super apps" offered by the likes of Tencent, Meituan, Alibaba, JD.com, and others. For residents of Mainland China, investing in Alibaba is akin to an American investing in Amazon, Google, Facebook, or Uber. These are services and platforms that people are using every day.

Beyond just being a near-term catalyst for Alibaba's stock or the stocks of other companies who choose to join in the future, we believe Southbound ownership has the long-term benefit of diversifying these companies' investor bases. Not only are these companies within their “circle of competence”, but Mainland China-based investors may also generally respond to different headlines, risks, and economic viewpoints compared to investors from the rest of the world. This could mute the shock factor of major headlines in the United States or Europe while also augmenting the impact of positive developments in China when it comes to China Internet stocks.

Who could be next?

Inclusion in Southbound Stock Connect is subject to the discretionary approval of the China Securities Regulatory Commission (CSRC), which is essentially Mainland China’s version of the SEC. However, to apply for inclusion, companies must first have a primary listing in Hong Kong.

In Alibaba’s case, since the company’s shares were already listed in New York and regulated by the US’ SEC, management had to submit itself to also be regulated by Hong Kong’s Securities & Futures Commission (SFC), making Hong Kong a “dual” primary listing location, which is required for a dually-listed company to be included in Southbound Stock Connect. They did this through approving certain measures at their Annual General Meeting (AGM) in August, which brought them into compliance with SFC regulations. These small changes, which pertained to issues such as employee stock options and independent board members, along with having at least a two-year trading history in the NYSE, allow a US-listed company to designate its Hong Kong listing as a dual primary listing.

Seven additional KWEB holdings could be added to Southbound Stock Connect in the future, based on the stated requirements and our own research. Four of them would need to convert their Hong Kong listings to primary listings, though all of them now have more than half of their market cap traded in Hong Kong, so doing so could make sense.

KWEB Holdings Eligible For Southbound Stock Connect

Name	KWEB Weight (%)	Hong Kong Listing	% of Free Float Market Cap in Hong Kong
JD.com	5.65	Secondary	76
NetEase	4.40	Secondary	86
Tencent Music	3.14	Secondary	99
Trip.com	4.03	Secondary	56
Baidu	3.86	Secondary	89
KE Holdings	3.83	Primary	75
Zhong An Insurance	0.99	Only	100
Total/Average	**25.90**	**-**	**82**

Data from Bloomberg and KraneShares as of 8/28/2024.

Conclusion

Alibaba's inclusion in Southbound Stock Connect is a significant catalyst not only for its stock but also for the entire China Internet space. As more companies are added to the program, the investor base will be further diversified to include many investors for whom these companies are well within their "Circle of Competence" as Warren Buffet would put it. We believe that Mainland China investors could be a new performance driver for the space, one that is better informed about underlying businesses and less sensitive to Western headline risks.

KWEB Top 10 Holdings Earnings Update

Data from Bloomberg and KraneShares as of 8/28/2024. Sources: Bloomberg, CICC Research, company releases & filings, KraneShares. % changes are year-over-year unless otherwise indicated. Revenue figures are adjusted (non-GAAP).

Tencent

Tencent is a diversified consumer technology company with businesses in social media, cloud services, payments, and online advertising. Tencent's most well-known product is WeChat, one of China's premier social media platforms with over one billion monthly active users (MAUs).

Tencent by The Numbers (Q2 2024)

- Revenue +8% to RMB 158.3B ($22.2B)
- Net Income RMB 46.3 ($6.5B)
- Net Margin 29%
- Earnings per Share RMB 5.0 ($0.7)

Tencent's Q2 financial results beat analysts' expectations. Online advertising was a clear bright spot, with revenue that increased by +19% year over year (YoY). One could argue that the increase provides a small insight into China's economy, indicating a rationale for advertisers to spend money to get their brands out there.

However, FinTech revenue growth, i.e., mobile payments and loans, slowed to a low single-digit due to "slow consumption spending." Value-added services (VAS) revenue increased by +6% to RMB 78.8 billion from RMB 74.2 billion, including China and international gaming revenue, which increased by +9% and +6%, respectively.

In the second quarter, Tencent repurchased 103.7 million shares for $4.8 billion.

Alibaba

Alibaba is a conglomerate primarily engaged in the E-Commerce industry. The company operates an online marketplace offering a wide variety of consumer goods. The company has also expanded beyond E-Commerce and is now a consortium of six businesses covering cloud, domestic E-Commerce, global digital commerce, media, logistics, and local services.

Alibaba by The Numbers (Q2 2024)

- Revenue +4% to RMB 239.6B ($33.6B)
- Net Income RMB 32.1B ($6.5B)
- Net Margin 13%
- Earnings per Share RMB 12.8 ($1.8)

Alibaba's second-quarter results mostly fell short of analysts' expectations. Following their Q2 earnings release, several important changes were announced. The company noted that a new 0.6% transaction fee for merchants will go into effect in September. This is expected to increase the company's bottom line and is on par with the transaction fees already levied by many competitors, including PDD, JD.com, and ByteDance.

Meanwhile, in capital markets news, Hong Kong will become the company's primary listing venue along with New York, allowing the company's Hong Kong-listed shares to subsequently go into Southbound Stock Connect. This is a significant catalyst, in our opinion, as nearly 10% of Tencent's market capitalization is held by Mainland investors through this program.

On a fundamental level, the second quarter represented a stark contrast between the performance of key business segments, such as international digital commerce, and the financial performance of the platform overall, which was slightly below expectations. A bright spot was their 6.18 (June 18th) sales event during the quarter, which was a success, especially for the premium buyer service, named “88 VIP”, which reached 42 million members during the quarter. Nonetheless, steep 6.18 discounts likely led to net profit declines. Meanwhile, international digital commerce saw double-digit revenue growth, rivaling PDD’s overall growth rate.

Alibaba also continues to implement its massive share repurchase plan. In fact in September, its own share buybacks have consistently accounted for over 6% of the volume in its American Depositary Receipts (ADRs).

PDD

PDD is an innovative global E-Commerce platform focused on the user experience and was one of the first to embrace a social media-like model for online shopping. The company’s apps are known for their group-buying capabilities, inserting gaming into shopping and earning coupons, and rock-bottom prices for private-label goods. PDD is also famous for pioneering to lower overhead costs through an on-demand manufacturing model. PDD operates under the name “Pinduoduo” in China and “Temu” in the rest of the world.

PDD By The Numbers (Q2 2024)

- Revenue +86% to RMB 95.5B ($13.4B)
- Net Income RMB 31.4B ($4.4B)

- Net Margin 33%
- Earnings per Share RMB 22.8 ($3.2)

PDD missed analysts' estimates slightly on revenue in the second quarter. Nonetheless, PDD continues to deliver with strong revenue growth compared to peers and a slight margin improvement. The Temu app is the third most-downloaded on the Apple app store as of the time of writing, above rival SHEIN, which is currently the fourth most-downloaded.

During the earnings call, management alluded to the "many challenges ahead" that will weigh on future growth driven by "intensified competition and external challenges". They also stated their intention to invest as much as possible in the company's growth for now, noting that these investments would affect future profitability. Because the company is still in a growth stage, they have no set plans for buybacks or dividends. PDD's investor communications are minimal compared to its rivals, which we believe can cause analysts and investors to be particularly reactionary. The company's 90% revenue growth rate in 2023 spoke for itself, but we believe management will need to state their case more coherently going forward.

Meituan

Meituan is an E-Commerce company that specializes in food delivery and other local services. The company operates many business lines, including general retail, restaurant booking, and travel booking services, and it serves over 600 million registered users. Meituan is one of China's leading "super apps" that offer a wide variety of services, even from third parties.

Meituan By The Numbers (Q2 2024)

- Revenue +21% to RMB 81.3B ($11.4B)
- Net Income RMB 11.4B ($4.4B)
- Net Margin 33%
- Earnings per Share RMB 2.1 ($0.3)

Meituan exceeded analysts' expectations in its second quarter results. The company continued to improve its margins, which have more than doubled year-over-year, as it rolled back some consumer subsidies and expanded its premium membership beyond just delivery. Management highlighted the rapid growth the company continues to see in in-store retail and travel booking services. In travel, management noted that destinations in lower-tier cities and provinces are becoming increasingly popular and that they have been making efforts to expand their presence in these areas.

During the six months ended June 30, the company bought 222 million shares for approximately $3 billion.

JD.com

JD.com is one of the largest E-Commerce platforms in China. JD owns a large and growing marketplace for a wide variety of goods and offers its own logistics service. JD offers its services to over 500 million users.

JD.com By The Numbers (Q2 2024)

- Revenue +1% to RMB 286.6B ($40.2B)
- Net Income RMB 13.5B ($1.9B)
- Net Margin 5%

- Earnings per Share RMB 8.6 ($1.2)

JD's quarterly results beat analysts 'expectations despite a difficult comparison in electronics and home appliances, with growth being particularly pronounced in the grocery segment. Electronics & home appliance sales were down nearly -5%. Shortly after the company's earnings report, Walmart sold the remainder of its shares in the company, which caused short-term volatility in its stock. We believe the sale could lead management to increase the pace of their share repurchases.

JD repurchased 136.8 million American Depositary Receipts (ADRs) for $2.1 billion in the second quarter, which represents 4.5% of shares outstanding.

NetEase

NetEase is a consumer information technology company primarily dealing in online, PC, and mobile games. It is one of the largest gaming companies in the world, and its titles include Knives Out and Naraka: Bladepoint.

NetEase By The Numbers (Q2 2024)

- Revenue +6% to RMB 25.0B ($3.5B)
- Net Income RMB 6.4B ($0.9B)
- Net Margin 26%
- Earnings per Share RMB 10.0 ($1.4)

NetEase missed analysts' expectations across the board. The company saw lower revenue growth year-over-year and declines in key metrics both year-over-year and quarter-over-quarter. The company is looking for the next video game hit after multiple hit games were released by rivals in recent months. As such, buybacks this quarter were curbed by an increase in R&D expenses. However, NetEase announced a special dividend of $0.44 per American Depositary Receipt (ADR), only slightly lower than their Q1 dividend of $0.50.

NetEase has repurchased 11.90 million ADRs for $1.1B, accounting for about 20% of the $5 billion stock repurchase plan approved in November of 2022.

Tencent Music Entertainment

Tencent Music operates an online entertainment platform that encompasses music, podcasts, audiobooks, online karaoke, and live streaming. The platform also has a social media platform-like feature that allows fans to connect with each other and socialize through music and entertainment.

Tencent Music Entertainment By The Numbers (Q2 2024)

- Revenue -2% to RMB 7.1 ($1.0B)
- Net Income RMB 1.4B ($0.2B)
- Net Margin 20%
- Earnings per Share RMB 1.4 ($0.2)

Tencent Music beat on the revenue, net income, and earnings per share. The positive results, despite the overall revenue decline year-over-year, reflect the company's strategy change: moving away from live streaming and heavier into paid music and content streaming subscriptions. Paying users saw an +18% increase, leading to a strong net profit beat.

Trip.com

Trip.com is a travel booking site widely recognized as an international competitor to Expedia. It provides search and complete booking services for flights, hotels, trains, car rentals, and more. The company offers international and domestic travel booking services to Chinese and global customers.

Trip.com By The Numbers (Q2 2024)

- Revenue +29% to RMB 12.1B ($1.7B)
- Net Income RMB 3.6B ($0.5B)
- Net Margin 29%
- Earnings per Share RMB 5.0 ($0.7)

Trip.com exceeded analysts' expectations in its second quarter results as the consumption trend in China continues to skew towards experiences, such as travel, over goods. CEO Jane Sun summed the quarter up succinctly, stating in the press release that "We are pleased with our strong growth and the resilience of travel consumption in China." Coincidentally, on Monday, European discount airline Ryanair added Trip.com to its list of approved travel booking partners, which will "allow Trip.com Group to offer Ryanair's low-fare flights to travelers as part of their dynamic product offerings."

KE Holdings

KE Holdings is China's leading housing transaction and services platform. Originally a brick-and-mortar real estate brokerage, Beike expanded into an integrated online and offline ecosystem, providing solutions for property sales, rentals, home renovation, and mortgages. The company's agent cooperation network (ACN) is a platform that facilitates information sharing among service providers and encourages collaboration between its extensive network of agents, stores, and brands.

KE Holdings By The Numbers (Q2 2024)

- Revenue +20% to RMB 22.8B ($3.2B)
- Net Income RMB 2.1B ($0.3B)
- Net Margin 9%
- Earnings per Share RMB 0.7 ($0.1)

KE Holdings exhibited strong top line growth from a low based in the second quarter, beating expectations, as conditions improved slightly in China's real estate market. The company also had a strong margin improvement both from last year and quarter-over-quarter. KE saw an increase in its new and existing home transaction volume, bucking the overall trend in the nation thanks to its robust network and focus on tier-1 cities. However, existing home transaction volume surged +70% while new home transaction volume only increased +16%. Some cities that had price floors set for home sales have dropped them, which could lead to an increase in transaction volume in the coming quarters.

Kuaishou

Kuaishou is a leading short-form video and live streaming content platform in China, akin to YouTube in the United States. More than a sharing and viewing platform, Kuaishou also provides advanced tools for creators and businesses to edit their videos and increase their reach.

Kuaishou By The Numbers (Q2 2024)

- Revenue +12% to RMB 30.7B ($4.3B)

- Net Income RMB 3.6B ($0.5B)
- Net Margin 12%
- Earnings per Share RMB 0.7 ($0.1)

Kuaishou beat analysts' estimates on the big three (revenue, adjusted net income, and adjusted EPS). However, Kuaishou's E-Commerce business, which had been seeing solid growth in recent quarters, slowed significantly in the second quarter. The slowdown was likely due to a cyclical malaise in consumer spending combined with even more competition in the space. Meanwhile, Kuaishou management reported that the company's Kling AI prompt-based video generator was seeing solid traction among users, including advertisers.

Citations

1. Data from Bloomberg Intelligence as of 12/31/2023.
2. Data from FactSet as of 8/20/2024.
3. Company report from 8/21/2024.
4. Gach, Ethan. "Black Myth: Wukong Beats Cyberpink And Elden Ring To Set New Steam Records Hours After Coming Out," Kotaku.com. August 20. 2024

Index Definitions

The CSI Overseas China Internet Index (China Internet) selects overseas listed Chinese Internet companies as the index constituents; the index is weighted by free float market cap. The index can measure the overall performance of overseas listed Chinese Internet companies. The Index is within the scope of the IOSCO Assurance Report as of 30 September 2018. The index was launched on September 20, 2011.

The Dow Jones US Internet Composite Index (US Internet) is designed to measure the performance of the 40 largest and most actively traded stocks of U.S. companies in the internet industry. To be eligible for the index, a company must derive at least 50% of cash flows from the internet. The index was launched on February 18, 1999.

Term Definitions

Revenue: The money a company receives from selling goods and/or services, usually over a certain period. In this case, the period is quarterly.

Net Income: A company's profit or total revenue minus total expenses.

Net Margin: A company's net income divided by its total revenue, usually expressed as a percent. This is also referred to as a profit margin and helps determine how profitable a business is.

Earnings per Share: A company's total revenue divided by the number of shares of that company.

Revenue Growth: A company's revenue growth over a given period; in this case, the change is recorded over a year from Q2 2022 to Q2 2023.

Price-to-Earnings (P/E) Ratio: A way to value a company by comparing its stock price to earnings. P/E equals the share price divided by a company's earnings per share (EPS).

Buyback Yield: Buyback yield reflects the potential impact of current share repurchase programs being carried out. It is expressed as the value of the remaining share repurchases as a percentage of the company's market capitalization.

Gross Merchandise Value (GMV): The total value of merchandise sold over a given period of time.

Carefully consider the Funds' investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in the Funds' full and summary prospectus, which may be obtained by visiting www.kraneshares.com/kweb. Read the prospectus carefully before investing.

Risk Disclosures:

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

This information should not be relied upon as research, investment advice, or a recommendation regarding any products, strategies, or any security in particular. This material is strictly for illustrative, educational, or informational purposes and is subject to change. Certain content represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results; the material is as of the dates noted and is subject to change without notice.

The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses (i.e. futures/forward contracts, swaps, and options) is a contract that derives its value from the performance of an underlying asset. The primary risk of derivatives is that changes in the asset's market value and the derivative may not be proportionate, and some derivatives can have the potential for unlimited losses. Derivatives are subject to counterparty risk. The Fund is subject to liquidity risk, meaning that certain investments may become difficult to purchase or sell at a reasonable time and price. If a transaction for these securities is large, it may not be possible to initiate, which may cause the fund to suffer losses.

Counterparty risk is the risk of loss in the event that the counterparty to an agreement fails to make required payments or otherwise comply with the terms of the derivative.

The ability of the Fund to achieve its respective investment objectives is dependent, in part, on the continuous availability of A Shares and the ability to obtain, if necessary, additional A Shares quota. If the Fund is unable to obtain sufficient exposure to limited availability of A Share quota, the Fund could seek exposure to the component securities of the Underlying Index by investment in other types of securities. The Fund is subject to political, social or economic instability within China which may cause decline in value. Emerging markets involve heightened risk related to the same factors as well as increase volatility and lower trading volume. Fluctuations in currency of foreign countries may have an adverse effect to domestic currency values. The Fund may invest in Initial Public Offerings (IPOs). Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. In addition, the prices of securities sold in IPOs may be highly volatile. In addition, as the Fund increases in size, the impact of IPOs on the Fund's performance will generally decrease.

Narrowly focused investments typically exhibit higher volatility. The Fund's assets are expected to be concentrated in a sector, industry, market, or group of concentrations to the extent that the Underlying Index has such concentrations. The securities or futures in that concentration could react similarly to market developments. Thus, the Fund is subject to loss due to adverse occurrences that affect that concentration. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility. KWEB is non-diversified.

ETF shares are bought and sold on an exchange at market price (not NAV) and are not individually redeemed from the Fund. However, shares may be redeemed at NAV directly by certain authorized broker-dealers (Authorized Participants) in very large creation/redemption units. The returns shown do not represent the returns you would receive if you traded shares at other times.

Shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. Beginning 12/23/2020, market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates the current NAV per share. Prior to that date, market price returns were based on the midpoint between the Bid and Ask price. NAVs are calculated using prices as of 4:00 PM Eastern Time.

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ABOUT CICC

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