

Securities Finance Report

Beware the Chinese Companies Listed in the USA



While China focused companies listed in Hong Kong are flying, life is not quite so rosy for those listed in America. Short sellers need to be followed here, for their role as natural skeptics can be predictive of what is to come

The Chinese word **DuoYuan** is roughly translated as “diversity” and forms part of the name of two companies listed on the NYSE which focus on the printing and water industries. Very recently, DuoYuan might as well mean “profit warning” for both **DYP** and **DGW** have seen their shares drop dramatically. While China focused companies trading in Hong Kong (H shares) are flying, life is not quite so rosy for those listed in America. Today, we briefly divert our attention away from the solar companies.

DuoYuan Printing (DYP) is currently a \$76m market cap company trading on the NYSE. Ten days ago it was a \$304m firm. Short sellers detected troubled times back in Q2 of this year but closed their shorts rather too soon. Today, the stock on loan in DYP is 2% of total shares or 68% of supply. The company changed accountants on the 13th September and the CEO, CFO and 4 board members resigned at the same time. Meanwhile, a law firm is investigating potential violations of securities law – no surprise to see the short interest continue to rise.

DuoYuan Global Water (DGW) shares the same Chairman and CEO as DYP. Short sellers moved into position as long ago as April before displaying their confidence that the shares were overvalued by quintupling the stock on loan by late August to 10% of the issued shares or close to 100% of supply. Institutional investors did not see this coming, by contrast, having increased their

holdings from 1m shares to 2.5m shares (or 8% of the company) by August.

Universal Travel Group (UTA) is another firm with a colorful recent history. UTA’s shares fell 19% late last week on rumors that it is a phantom business according to an Australian fund manager. Short selling was reasonably high into the early summer before hurried short covering took place from 5% of the company to zero. On the recent news, stock on loan has spiked back up to 4% of this China travel group. Again, institutional investors had bought into the story and were increasing their shares in UTA until late July when they reversed this trend at the same time as the short sellers were covering.

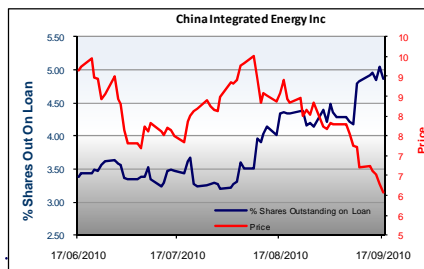
To establish whether or not these were just the bad apples in an otherwise gleaming orchard, we loaded 70 Chinese companies listed in the US into our sentiment dashboard to see the overall level of confidence in this sector. Not a single share came up as “positive”. However, after what has happened with the above 3, it could be true that investors are increasingly negative here. Over the last month short sellers have borrowed more shares in the following, while institutional investors are reducing their holdings: **China Integrated Energy, China Automotive Systems, China Armco Metals, Zhongpin and China New Borun**. Possible squeezes from a long list are **Yongye International, Rino International**

and **China Information Technology**. The Energy sector has the most negative sentiment.

So while H shares and companies listed on the Chinese mainland are riding high, life isn’t so settled for their USD listings. There is some concern out there that “safe” Chinese growth stocks are somewhat rare. Investors should pay attention to short sellers for their role as natural skeptics can be predictive of what is to come.

Will Duff Gordon

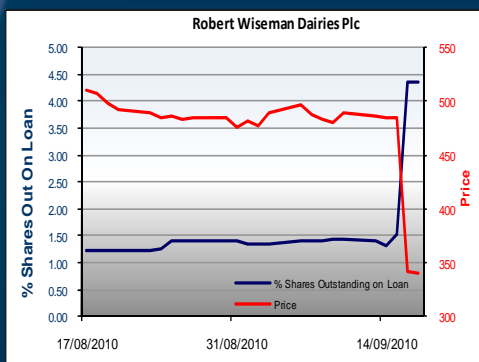
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Stock of the Day: Robert Wiseman Dairies

RWD sees a surge in short interest following its recent profit warning blaming “competitive pressures” as supermarkets are locked in price wars



% Total Shares Outstanding on Loan
 Price

Long Short Ratio: All Global Securities



16 Sep 10	Chg	% Chg	Week % Chg	52 Week High	52 Week Low
7.22	+0.04	+0.56%	+0.35%	7.34 (10-Aug-10)	6.26 (07-May-10)

This is a very simple way to understand whether the market is getting more or less short. It is derived by taking the institutional longs that are made available to borrow through the securities lending programs and divides this by what has been put out on loan.

DXI Global 50



The DXI™ Data Explorers family of indices tracks the change in securities lending, a proxy for short selling, in relation to shares outstanding of the largest companies in each region. The advantage of the DXI™ methodology is that it is not impacted by changes in price or by changes in trade volume so securities lending activity is not obscured by cash market movements.

The region-specific DXI™ US, UK, Europe (ex UK), Japan, and Asia (ex Japan) 30 each cover the securities lending loan base for the 30 largest market capitalised companies in each region, respectively.

The DXI Global 50 is made up of the 50 largest companies from the five regional indices.

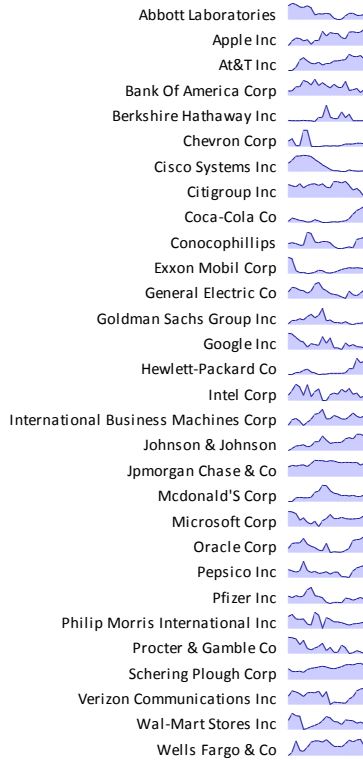
A rising DXI™ index represents a relative increase in quantity on loan (i.e. short selling) while a falling index highlights a decrease in the quantity on loan (i.e. short covering).

Each index has a base as of 6 January 2010 and is rebalanced quarterly. The indices are not weighted.

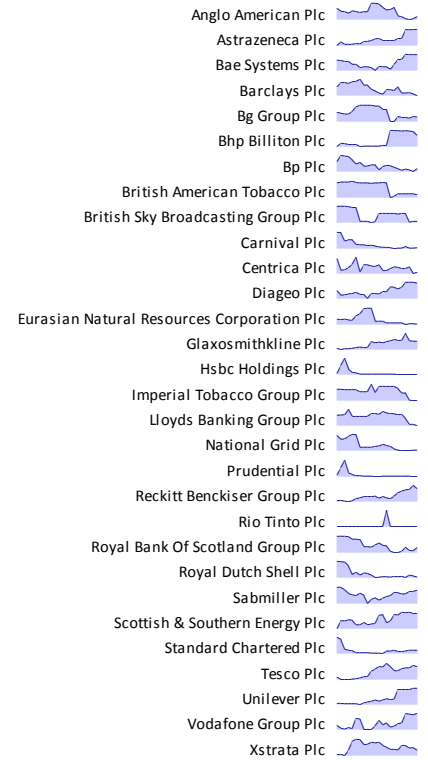
The chart for each index component shows the percent shares outstanding on loan for each company. *Note: this is not to a common scale but rather shows the trend over the past 22 trading days.*

For more information please contact Data Explorers.

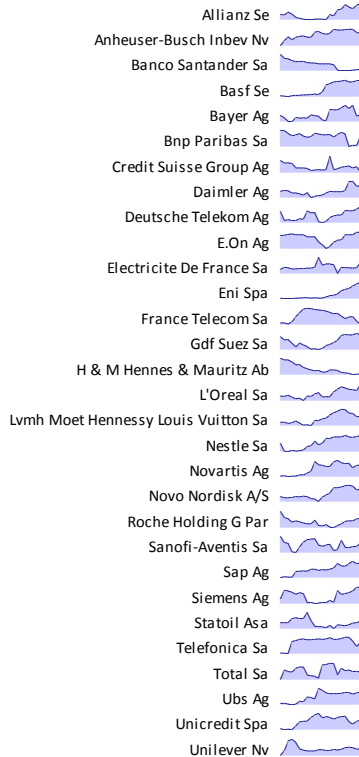
DXI US 30



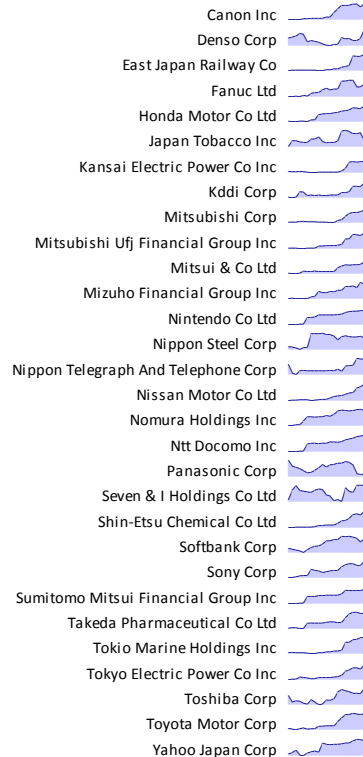
DXI UK 30



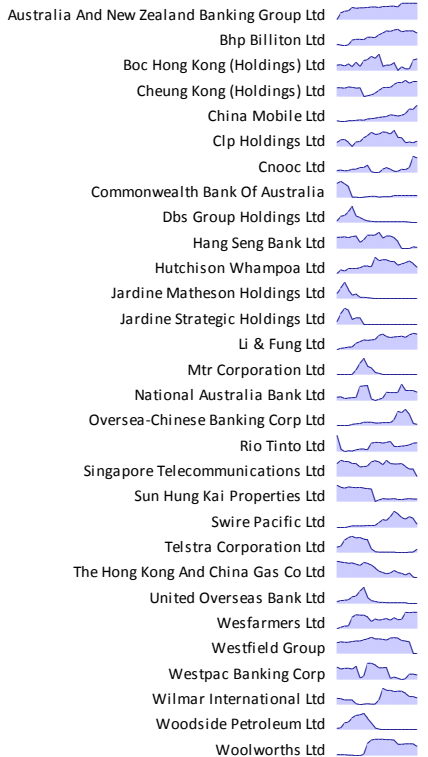
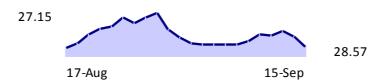
DXI EU xUK 30



DXI Japan 30



DXI Asia xJP 30



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