

July 25, 2011

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## Disproportional Risks Found Among 27 Chinese Companies Profiled

**D.I.® Perspective:** Analysis of our 27 research reports on Chinese companies with securities trading on US exchanges shows a pattern of significant, chronic, and disproportional risk. These risks were not limited to reverse mergers, an area of recent market focus. Using our standard research process that assesses 100 different risk factors for each company across 5 years of SEC filings (when available), we consistently found a wide array of SEC activity; accounting/auditor issues; capital markets factors; problems with the boards and/or executive suites; and non-SEC investigative activity. This occurred across large and small cap Chinese companies, spanning many industries, and included some of the larger and better-known names. Summaries for the 27 Chinese companies in this analysis are compiled in this report.

Since we first started producing D.I. Reports® in 2009, our risk profiling discipline has consistently compelled us to assign negative ratings to the vast majority of Chinese companies that we have reviewed. Upon updating our reports through this spring and summer, ratings for some of the companies have deteriorated as fraud allegations, auditor resignations, and other negative events have been reported. Full D.I. Reports® and accompanying analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

- 56% of the 27 Chinese companies we reviewed were rated High Risk. High Risk ratings are relatively uncommon among our universe of 1,484 company reports. Only 6% of non-Chinese companies are rated High Risk. Notably, no Chinese companies earned our Low Risk rating whereas 5% of non-Chinese companies are rated Low Risk.
- 89% of the Chinese companies received negative ratings of either High Risk or Medium Risk - Negative Bias compared to 52% of non-Chinese companies.
- 16 of the Chinese companies are not reverse mergers. 88% (14) of those 16 carry negative ratings: 7 are High Risk and 7 Medium Risk - Negative Bias. The remaining 2 are rated Medium Risk - Positive Bias.
- 11 of the Chinese companies rated are reverse mergers. Despite sharp and recent negative price action in this space, 4 of the 11 still have market caps in excess of \$100 million as well as High Risk ratings from us.

D.I. Rating	Distribution of Ratings (1,484 Companies Total)*			
	Chinese	%	Non-Chinese	%
High Risk	15	56	84	6
Medium Risk - Negative Bias	9	33	676	46
Medium Risk - Positive Bias	3	11	630	43
Low Risk	0	0	67	5
<b>Totals</b>	<b>27</b>	<b>--</b>	<b>1,457</b>	<b>--</b>

\*At present, Disclosure Insight only rates companies registered and trading on US exchanges. The vast majority of the non-Chinese companies rated are US Corporations. Our total library size is 1,484 companies.

**D.I. Ratings** range from Low Risk to High Risk. They are based on the number, nature, and timing of the risk factors we found among the 100 we researched over the most recent 5 years. In profiling the Chinese companies, we used the same in-depth risk profiling process we use in researching any company on which we produce a D.I. Report®. Each D.I. Report® identifies and summarizes those risk factors that we believe hold the potential to destabilize a company, distract its management, and/or interfere with underlying fundamentals.

## 27 Chinese Companies Rated by Disclosure Insight® in 2011

Company	Ticker	Price	Mkt Cap* \$Mil	D.I. Rating	D.I. Report Date	Reverse Merger
3SBio, Inc.	SSRX	\$16.24	360	Medium - Negative	27-May-11	No
American Oriental Bioengineering, Inc.	AOB	\$1.29	101	Medium - Positive	4-Mar-11	Yes
AsiaInfo-Linkage, Inc.	ASIA	\$15.46	1,135	Medium - Negative	21-Jul-11	No
Canadian Solar, Inc.	CSIQ	\$9.63	419	<b>High Risk</b>	18-Jul-11	No
China Agritech Inc.	CAGC	\$1.65	34	<b>High Risk</b>	13-Jul-11	Yes
China Automotive Systems, Inc.	CAAS	\$8.28	233	<b>High Risk</b>	9-Jun-11	Yes
China Distance Education Holdings Ltd.	DL	\$3.26	112	Medium - Negative	27-May-11	No
China Eastern Airlines Corp. Ltd.	CEA	\$23.79	1,663	<b>High Risk</b>	12-May-11	No
China Green Agriculture, Inc.	CGA	\$5.24	141	<b>High Risk</b>	20-Jul-11	Yes
China Life Insurance Co. Ltd.	LFC	\$51.57	71,591	<b>High Risk</b>	17-Jun-11	No
China MediaExpress Holdings, Inc.	CCME	\$1.60	59	<b>High Risk</b>	22-Jul-11	Yes
China Natural Gas, Inc.	CHNG	\$3.13	67	<b>High Risk</b>	22-Jul-11	Yes
China Pharma Holdings, Inc.	CPHI	\$2.14	93	Medium - Negative	13-Jul-11	Yes
China Southern Airlines Co. Ltd.	ZNH	\$31.88	1,782	Medium - Negative	24-May-11	No
China TransInfo Technology Corp.	CTFO	\$3.91	99	Medium - Negative	20-May-11	Yes
China-Biotics, Inc.	CHBT	\$1.73	38	<b>High Risk</b>	26-May-11	Yes
Harbin Electric, Inc.	HRBN	\$19.39	606	<b>High Risk</b>	12-Apr-11	Yes
JA Solar Holdings	JASO	\$5.02	858	<b>High Risk</b>	18-Jul-11	No
LDK Solar Co. Ltd.	LDK	\$7.25	1,086	<b>High Risk</b>	22-Jul-11	No
Longtop Financial Technologies Ltd.	LFT	na	na	<b>High Risk</b>	21-Jul-11	No
NetEase.com, Inc.	NTES	\$49.43	6,431	Medium - Negative	20-Jul-11	No
Shanda Interactive Entertainment Ltd.	SNDA	\$37.04	2,084	Medium - Negative	22-Jul-11	No
Sohu.com Inc.	SOHU	\$84.14	3,222	Medium - Positive	22-Jul-11	No
Synutra International Inc.	SYUT	\$9.00	516	<b>High Risk</b>	11-May-11	Yes
UTStarcom, Inc.	UTSI	\$1.44	225	<b>High Risk</b>	20-Jul-11	No
VanceInfo Technologies Inc.	VIT	\$21.05	938	Medium - Positive	24-May-11	No
Xinyuan Real Estate Company Ltd.	XIN	\$2.04	157	Medium - Negative	21-Jul-11	No

\*In the case of ADRs, Mkt Cap represents the value of the ADR trading on a US exchange.

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**3SBio, Inc. (SSRX - \$16.24 Mkt Cap - \$360 Mil) Medium Risk - Negative Bias**

From D.I. Report® of 27-May-11:

**D.I. PROFILE®** Three CFOs since its IPO in Feb-07; related party transactions; an auditor change in May-09; and concentrated revenue support our opinion of a Medium Risk - Negative Bias rating for SSRX. In Jan-08, CFO Clara Mak resigned for personal reasons and was replaced by Kevin Sow Peng Teo. In Feb-09, CFO Sow Peng Teo stepped down and became Director of Finance. Bo Tan has held the CFO position since then. In May-09, SSRX dismissed KPMG as its auditor and appointed Ernst & Young Hua Ming. Related party transactions include cross guarantees of loans, the sale of equity investments to officers, and a research and development agreement with a company whose CEO is an immediate family member of an officer. Revenue is concentrated between the sales of its two leading drugs, EPIAO and TPIAO. In 2010, sales of these two drugs accounted for 61% and 30% of total revenue, respectively. During 1Q11, EPIAO and TPIAO accounted for 58% and 32% of total revenue, respectively.

**D.I. Ratings History:**

- First rated Medium Risk- Negative Bias on 12-Jan-10 at \$13.24
- Medium Risk - Negative Bias rating reiterated on 26-Aug-10 at \$11.99
- Medium Risk - Negative Bias rating reiterated 27-May-11 at \$17.89

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**American Oriental Bioengineering, Inc. (AOB - \$1.29 Mkt Cap - \$101 Mil) Medium Risk - Positive Bias**

*Note: This is a reverse merger (2002).*

From D.I. Report® of 4-Mar-11:

**D.I. PROFILE®** The chairman and CEO positions being held by one person; acquisition activity; and insider ownership support our opinion of a Medium Risk - Positive Bias rating for AOB. AOB reported 6 acquisitions for a total of \$148 million, of which approximately \$29 million was allocated to goodwill. AOB's principal founder, Tony Liu, has served as Chairman & CEO since 2001. AOB has two classes of stock: common and Series A preferred. Chairman & CEO Liu holds all of the outstanding Series A preferred stock, which gives him 25% of the total voting power. Through his ownership of the Series A preferred stock and 18.5% of the common stock, Liu controlled approximately 39% of AOB's total voting power as of 13-Oct-10.

**D.I. Ratings History:**

- First rated Medium Risk - Positive Bias 3-Dec-09 at \$4.14
- Medium Risk - Positive Bias rating reiterated on 4-Mar-11 at \$2.24

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**AsialInfo-Linkage, Inc. (ASIA - \$15.46 Mkt Cap - \$1135 Mil) Medium Risk - Negative Bias**

From D.I. Report® of 21-Jul-11:

**D.I. PROFILE®** Concentrated revenue; insider ownership; acquisition activity; executive turnover; and lowered guidance support our opinion of a Medium Risk - Negative Bias rating for ASIA. In 1Q11, China Mobile (CHL), China Unicom (CHU), and China Telecom (CHA) accounted for 54%, 25%, and 19% of ASIA's revenue, respectively. CHL, CHU, and CHA accounted for 61%, 22%, and 15% of ASIA's 2010 revenue, respectively. As of Feb-11, directors and executive officers owned 29.6% of ASIA. ASIA reported 2 acquisitions, 2 majority ownership purchases, 2 asset acquisitions, and one business combination for \$657 million, of which \$418 million was allocated to goodwill. The largest transaction was the merger with Linkage in Jul-10 for a total of \$642 million, of which \$406 million was allocated to goodwill. There have been 4 CFOs. Michael Wu has served as CFO since Aug-10. Dr. Xiwei Huang departed as COO after less than a year in the position (Jul-10 to Mar-11). In Dec-10, ASIA lowered its non-GAAP 4Q10 revenue guidance from \$119 million - \$123 million to \$107 million - \$111 million and lowered its non-GAAP 4Q10 EPS guidance from \$0.40 - \$0.43 to \$0.38 - \$0.41 due to the sale of its IT security business, Lenovo Security Technologies, which contributed 8% of net revenue in 2010 through the date of the disposition.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 14-May-10 at \$21.46
- Medium Risk - Negative Bias reiterated 21-Jul-11 at \$15.31

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**Canadian Solar Inc. (CSIQ - \$9.63 Mkt Cap - \$419 Mil) High Risk**

*Note: This is from the Canadian Solar 20-F filed 17-May-11 for the year ended 31-Dec-10:*

- *We are a Canadian company with substantially all of our manufacturing operations in China.*
- *Our principal executive office is located at 650 Riverbend Drive, Suite B, Kitchener, Ontario, Canada N2K 3S2.*
- *Our principal place of business is at No. 199 Lushan Road, Suzhou New District, Suzhou, Jiangsu 215129, People's Republic of China.*

From D.I. Report® of 18-Jul-11:

**D.I. PROFILE®** An ongoing SEC investigation; insider ownership; concentrated revenue; executive suite turnover; debt covenant violations; related party transactions; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating for CSIQ. In Jun-10, CSIQ announced that it received a subpoena from the SEC requesting documents from the company relating to certain sales transactions in 2009. As of May-11, the SEC investigation was ongoing. As of Mar-11, Chairman, CEO & President Shawn (Xiaohua) Qu held 30% of the company's outstanding shares. One customer accounted for 11% of 2010 net revenue. There have been 3 CFOs since the company's IPO in Nov-06. Andrew Chen has served as CFO since Oct-10. CSIQ had 2 debt covenant violations, which resulted in borrowings being due and payable and therefore classified as short-term. The present status of the covenant violations and short-term debt is not clear. In 2010, CSIQ outsourced module processing services to a joint venture (Suzhou Gaochuangte New Energy) established by the company, which purchased module products from the company and sold finished products back to the company after completion of the processing services. There were \$2.1 million module products sold to Gaochuangte in 2010 for further processing and \$2.1 million in finished goods purchased back from Gaochuangte. Chairman & CEO Dr. Qu fully guaranteed a one-year RMB250 million loan facility from the Bank of Communications in 2010. Amount drawn down from the facility at Dec-10 was \$38 million. Founder Dr. Shawn (Xiaohua) Qu has served as both Chairman & CEO since Oct-01.

**D.I. Ratings History:**

- First rated High Risk 18-Jul-11 at \$9.51

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**China Agritech Inc. (CAGC.PK - \$1.65 Mkt Cap - \$34 Mil) High Risk**

*Note: This is a reverse merger (2005).*

From D.I. Report® of 13-Jul-11:

**D.I. PROFILE®** Delisting; an internal investigation; a delayed filing; 4 changes in auditor; a non-top tier auditor; a noisy auditor departure; material weaknesses in internal controls; insider ownership; stock price volatility; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating for CAGC. In Apr-11, CAGC received a letter from NASDAQ regarding the delisting of its common stock based on public interest concerns and the company's failure to file its 2010 10-K on time. CAGC was delisted from NASDAQ effective 20-May-11 and is now trading on the OTC pink sheets. In Mar-11, CAGC announced that it had formed a Special Committee to investigate certain allegations made by third parties with respect to the company and certain related issues. Due to the ongoing internal investigation, the company delayed the filing of 2010 10-K, which has yet to be filed as of 12-Jul-11. In Apr-08, CAGC dismissed Kabani & Co. as its auditor and appointed Grobstein, Horwath & Company (GHC). On 7-Jan-09, GHC merged with Crowe Horwath LLP (Crowe). On 19-Jan-09, Crowe was formally engaged as CAGC's new auditor. In Nov-10, CAGC dismissed Crowe and appointed Ernst & Young Hua Ming (E & YHM). In Mar-11, CAGC dismissed E & YHM. E & YHM had earlier provided a letter to the company regarding certain matters, which could result in audit adjustments, significant deficiencies, or material weaknesses and/or delays in meeting the 10-K filing deadline. It had certain disagreements with the company including lack of additional information demanded by E&YHM related to the investigation initiated by the company. In Apr-11, CAGC appointed Simon & Edward as its auditor. In the 2Q10 10-Q, CAGC declared its internal controls effective as of 30-Jun-10, but identified accounting errors in its 1Q10 10-Q resulting in adjustments. As a result of these accounting errors, CAGC concluded that there were material weaknesses in internal controls as of 31-Mar-10. In the 3Q10 10-Q filed in Nov-10, CAGC disclosed that it enhanced the supervision and review of the financial reporting process for the preparation of U.S. GAAP-based financial statements. The company further believed that these remediation steps would correct the weaknesses. There has been no further report on internal controls since the Jul-11 10-Q filing. As of Jul-10, Founder, Chairman, and CEO Yu Chang owned 34.1% of the outstanding shares. All officers and directors as a group (9 people) owned 37.2%. There have been 16 instances of stock price volatility >10% in the last year. Founder Yu Chang has served as Chairman & CEO since Feb-05.

**D.I. Ratings History:**

- First rated High Risk 28-Oct-10 at \$12.27
- High Risk rating reiterated on 13-Jul-11 at \$1.50

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**China Automotive Systems, Inc. (CAAS - \$8.28 Mkt Cap - \$233 Mil) High Risk**

*Note: This is a reverse merger (2003).*

From D.I. Report® of 9-Jun-11:

**D.I. PROFILE®** Related party transactions; concentrated revenue; insider ownership; an auditor resignation; delays in filing the 2010 10-K and 1Q11 10-Q; and a forthcoming restatement support our opinion of a High Risk rating for CAAS. From 2006 through 9M10, sales to related parties totaled \$25.7 million, purchased materials from related parties totaled \$44.8 million, technology purchased from related parties totaled \$1.5 million, and equipment purchased from related parties totaled \$10.6 million. During the 9 months ended Sep-10, the company's 10 largest customers accounted for 76.3% of its consolidated net sales, with two customers accounting for 15.3% and 11.7% of sales. Members of the company's management beneficially owned approximately 73.5% of the outstanding shares of its common stock as of 9-Nov-10 with CAAS' chairman and his wife controlling almost 55.5%. In Dec-10, CAAS' auditor since May-03, Schwartz Levitsky Feldman, resigned. PwC was appointed as the new auditor. On 17-Mar-11, CAAS disclosed that it expects to restate 2009 and 2010 results due to errors in accounting for convertible notes. The review of the accounting errors and pending restatement precipitated delays in filing the 2010 10-K and 1Q11 10-Q.

**D.I. Ratings History:**

- First rated High Risk 4-Aug-10 at \$19.99
- High Risk rating reiterated on 9-Jun-11 at \$7.28

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**China Distance Education Holdings Ltd. (DL - \$3.26 Mkt Cap - \$112 Mil) Medium Risk - Negative Bias**

From D.I. Report® of 27-May-11:

**D.I. PROFILE®** An auditor change amidst identified material weaknesses in internal controls; significant insider ownership; a related party transaction; issues with an acquisition; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating for DL. On 16-Apr-09, DL dismissed Ernst & Young Hua Ming (EYHM) as its independent auditor. DL disclosed that the company did not have any disagreement with EYHM, but that EYHM had identified material weaknesses in internal control in FY07 and FY08. DL appointed Deloitte Touche Tohmatsu CPA Ltd. as its auditor. In the FY09 20-F, internal controls and procedures were reported effective as of 30-Sep-09. As of 10-Mar-11, directors and officers owned 46.71% of the outstanding shares, which includes the 42.24% owned by Chairman & CEO Zhengdong Zhu. The consolidated operating company for DL within China, Beijing Champion, is owned entirely by Zhu and his wife. DL has no ownership in Beijing Champion, but exercises control through a series of contractual arrangements. In Jan-10, DL filed an arbitration application with the China International Economic and Trade Arbitration Commission against Liang Ma, Beijing Yinglun Yucai Education Consulting Co., Ltd. (Yinglun Yucai), and Global Education Consortium Group Co., Limited (respondents) in accordance with the dispute resolution clause in the investment agreement entered into between DL and the respondents in connection with DL's acquisition of Yinglun Yucai's business start-up training business in Mar-09. Zhengdong Zhu has been Chairman & CEO since 2000. DL completed its initial public offering in Aug-08.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 22-Jul-10 at \$4.67
- Medium Risk - Negative Bias rating reiterated on 27-May-11 at \$3.48

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**China Eastern Airlines Corp. Ltd. (CEA - \$23.79 Mkt Cap - \$1663 Mil) High Risk**

From D.I. Report® of 12-May-11:

**D.I. PROFILE®** Controlled company status; related party transactions; at least 10 instances where trading in the stock was suspended; the Jan-10 Shanghai Airlines acquisition; one-time items; and director turnover support our opinion of a High Risk rating on CEA. The company is majority owned by China Eastern Air Holding Company, a state-owned enterprise incorporated in China. As of the general meeting held 18-Feb-11, CEA Holding and CES Global, its wholly owned subsidiary, controlled 59.9% of CEA's voting rights through a combination of Class A and Class H shares. In 2010, CEA purchased RMB764 million in goods and services from CEA Holding and its affiliates. Trading in CEA stock has been suspended at least 10 times in the last 5 years, most recently for one day on 27-May-10. The company requested all of the suspensions. The lengthiest were from 22-May-07 to 3-Sep-07 and from 8-Jun-09 to 13-Jul-09. The company acquired Shanghai Airlines in Jan-10 for RMB9.1 billion, resulting in RMB11.3 billion of goodwill. One-time items include impairment charges each year since 2007 totaling RMB3.6 billion. There have been 9 director departures, including a chairman change.

**D.I. Ratings History:**

- First rated High Risk 12-Aug-10 at \$27.00
- High Risk rating reiterated on 12-May-11 at \$23.06

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**China Green Agriculture, Inc. (CGA - \$5.24 Mkt Cap - \$141 Mil) High Risk**

*Note: This is a reverse merger (2008).*

From D.I. Report® of 20-Jul-11:

**D.I. PROFILE®** An SEC investigation; lowered guidance; insider ownership; related party transactions; executive suite turnover; an auditor change; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating for CGA. In May-11, CGA disclosed that the SEC was conducting an investigation of prior financial statements and allegations related to material misstatements and omissions in financial statements, various violations of state law by officers and directors and breach of their fiduciary duties by disseminating false and misleading information to shareholders, failing to maintain internal controls and procedures, and failing to properly oversee and manage the company. In Feb-11, CGA lowered net income guidance from \$36.2 million - \$36.8 million to \$31.5 million - \$33.2 million due to additional legal and investor relations fees related to certain pending litigation. The company also lowered its EPS guidance from \$1.35 - \$1.37 to \$1.17 - \$1.24. As of 25-Oct-10, Chairman & CEO Tao Li owned 33.7% of CGA's common stock. In Oct-09, CGA disclosed that its principal executive offices were leased from Xi'an TechTeam Science and Technology Industry (Group), which is controlled by Chairman & CEO Li, for a five-year term starting in Jan-08 at an annual rent of \$19,266. Techteam's (a subsidiary of CGA) factory office buildings were also leased from the Group for a five-year term from 1-Jul-07 at an annual rent of \$4,091. In Oct-10, CGA disclosed that its executive offices are leased from Kingtone Information at no cost. Chairman & CEO Li is a principal shareholder and Chairman of Kingtone Information. In 2010, CGA disclosed that it had entered into agreements with Kingtone Information Technology regarding the production of certain fertilizer processing equipment for Jinong (a CGA subsidiary); construction of an integrated pipeline control project for Jinong; and for developing certain electronic control systems for Xi'an Hu County Yuxing Agriculture Technology Development Co., Ltd., a wholly-owned subsidiary of Jinong. The total contracted value for each agreement was \$590,000; \$760,000; and \$452,000, respectively. There have been 4 CFOs since Dec-07. In Jan-08, CGA changed auditors from Schumacher & Associates to Kabani & Company. CGA reported that there were no disagreements with Schumacher & Associates. Tao Li has served as CEO and the Chairman since Dec-07.

**D.I. Ratings History:**

- First rated High Risk 28-Oct-10 at \$7.75
- High Risk rating reiterated 20-Jul-11 at \$5.27

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**China Life Insurance Co. Ltd. (LFC - \$51.57 Mkt Cap - \$71591 Mil) High Risk**

From D.I. Report® of 17-Jun-11:

**D.I. PROFILE®** Impairment charges; turnover on the board; controlled company status; and related party transactions support our opinion of a High Risk rating for LFC. Impairment charges associated with debt and equity securities totaled RMB21 billion after factoring in reversals. There were 7 departures from the board, including a recent change in the chairman position. On 3-Jun-11, Chairman Yang Chao resigned and was succeeded by Yuan Li. LFC is a controlled company with China Life Insurance Company (CLIC) owning approximately 68% of its equity. CLIC is wholly-owned by the Chinese (PRC) government. Only 4 of LFC's 11 directors are independent. LFC conducts related party transactions with CLIC, China Life Asset Management Company (AMC), China Life Pension, China Life Investment Holding Company (IHC), and Guangdong Development Bank (GDB). These transactions are associated with various agreements including capital injection agreements, a policy management agreement, a restructuring agreement, a trademark license agreement, a non-competition agreement, an account management agreement, a negotiated deposit agreement, and an asset management agreement.

**D.I. Ratings History:**

- First rated High Risk 21-Jul-09 at \$64.43
- High Risk rating reiterated on 2-Sep-10 at \$58.73 and again on 17-Jun-11 at \$49.56

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**China MediaExpress Holdings, Inc. (CCME.PK - \$1.60 Mkt Cap - \$59 Mil) High Risk**

*Note: This is a reverse merger (2009).*

From D.I. Report® of 22-Jul-11:

**D.I. PROFILE®** We are changing our rating on CCME from Medium Risk - Negative Bias to High Risk due to risk of undisclosed SEC investigative activity; the noisy resignation of its auditor; the resignation of the CFO and audit committee chair; delisting of the stock; delayed filings; and an ongoing internal investigation. Risk of undisclosed SEC investigative activity; a noisy auditor departure; the resignation of the CFO; turnover on the board; delayed filings; an ongoing internal investigation; delisting of the stock; a lack of conference calls; significant insider ownership; related party transactions; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating for CCME. A response we received from the SEC to a Freedom of Information Act request indicated the risk of undisclosed SEC investigative activity as of 15-Jul-11. On 11-Mar-11, Deloitte Touche Tohmatsu (DTT) resigned as CCME's auditor. DTT's resignation letter stated that it was no longer able to rely on the representations of management and that it had lost confidence in the commitment of the board and audit committee to good governance and reliable financial reporting. On 13-Mar-11, CFO and director Jacky Lam resigned. Lam's resignation letter indicated that he disagreed with the manner in which CEO Cheng responded to certain information of which Lam had recently become aware. On 16-Mar-11, Dorothy Dong (a member of the compensation and nominating committees) resigned. Her resignation letter indicated that she disagreed with the conduct of management that resulted in the auditor resignation. On 7-Apr-11, Marco Kung (Chair of the audit committee) resigned. His resignation letter indicated that he did not believe he could execute his fiduciary duties and roles as an independent director and Chair of the audit committee to choose capable and appropriate independent professional advisors to the audit committee. Since Mar-10, 5 directors have resigned. As a result of the resignation of CCME's auditor and CFO, the company delayed the filing of its 2010 10-K. As of the date of this report, no 10-K has been filed for 2010, no new auditor has been engaged, and no new CFO has been appointed. Following these events, CCME's board authorized the formation of an independent special committee to investigate concerns raised by DTT regarding the company's financial records. On 2-May-11, CCME announced that the audit committee retained the law firm DLA Piper to assist in the internal investigation. CCME was delisted from NASDAQ on 19-May-11 and now trades on the pink sheets. CCME does not hold conference calls for investors. Chairman & CEO Cheng owned 36% of CCME's outstanding common stock as of Dec-10. In FY07, HKMDF (CCME's predecessor) purchased a vehicle and a patent from CEO Cheng for \$14,000 and \$1.31 million, respectively. CCME became public in Oct-09 through the reverse merger of Hong Kong Mandefu Holding Limited (HKMDF) with a blank check company named TM Entertainment and Media, Inc. (TMI). The resulting company, CCME, is led by Chairman & CEO Zheng Cheng, the founder of HKMDF.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 11-Nov-10 at \$19.47
- Downgraded to High Risk when updated on 22-Jul-11 at \$1.61

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**China Natural Gas, Inc. (CHNG - \$3.13 Mkt Cap - \$67 Mil) High Risk**

*Note: This is a reverse merger (2005).*

From D.I. Report® of 22-Jul-11:

**D.I. PROFILE®** Turnover in the CFO position; board departures; 3 auditors; internal controls issues; 16 amended filings; 5 delayed filings; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating on CHNG. There have been 6 CFOs. Current CFO Bode Xu was appointed in Dec-10. CFO changes in Oct-08, Apr-09, Jan-10, and Dec-10 were each followed by the filing of an amended 10-K in Dec-08, Jul-09, Aug-10, and Jun-11, respectively. Of the 3 director departures, 2 were audit committee chairmen. The company has had 3 auditors. The current auditor, Friedman LLP, was appointed in Dec-10. CHNG disclosed that its internal controls were ineffective as of 31-Dec-08 due to a material weakness related to insufficient accounting personnel with U.S. GAAP expertise as well as a significant deficiency related to insufficient resources to properly perform internal audit functions. Additional deficiencies relating to the financial closing and reporting process and the treasury cycle were identified as of 31-Mar-09. Internal controls were reported effective as of 31-Dec-09. However, in the 2Q10 10-Q, the company disclosed that its internal controls were ineffective as of 31-Dec-09 due to a material weakness related to 3 transactions entered into by key executives without prior board approval. CHNG continued to disclose a material weakness relating to the disclosure of such transactions in the 10-K filed 14-Mar-11. Further, in the 1Q11 10-Q, the company reported that it had identified a material weakness relating to insufficient accounting personnel with U.S. GAAP expertise. The weakness was later disclosed to have been present since at least 1-Oct-10. The amended filings clarified that Xian Xilan Natural Gas was a 100% VIE; made a variety of changes to the 2008 10-K and 1Q09 10-Q lengthening the filings from 77 pages and 47 pages to 160 pages and 86 pages, respectively; reflected the impact of 3 unauthorized transactions; reversed certain revisions made in Aug-10 amendments; and were in response to comments received in SEC reviews. Qinan Ji has been Chairman since Dec-05 and CEO since May-06. On 30-Jun-11, Ji announced that he had entered into an exclusivity agreement to formulate a proposal to acquire the outstanding shares of CHNG at a price of \$4.25 per share as part of a going private transaction.

**D.I. Ratings History:**

- First rated High Risk 15-Oct-10 at \$6.14
- High Risk rating reiterated 22-Jul-11 at \$3.22

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**China Pharma Holdings, Inc. (CPHI - \$2.14 Mkt Cap - \$93 Mil) Medium Risk - Negative Bias**

*Note: This is a reverse merger (2006).*

From D.I. Report® of 13-Jul-11:

**D.I. PROFILE®** Recent internal control deficiencies and a related restatement; significant insider ownership; concentrated revenue; a non-top tier auditor; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating for CPHI. In Mar-11, CPHI disclosed that its internal controls were ineffective as of 31-Dec-09 and 31-Dec-10 due to a material weakness in the reporting of complex, non-routine transactions relating to stock warrants. Internal controls were reported effective as of 31-Mar-11 due to hiring extra accounting experts knowledgeable on the subject. Also in Mar-11, CPHI filed amended 10-Ks for 2009 and 2010 and 10-Qs for 1Q10 - 3Q10 that restated consolidated financial statements in order to reclassify stock warrants issued in May-07 and May-08 as derivative liabilities. Restated 2009 net income decreased from \$20.2 million to \$18.0 million. As of 5-Nov-10, all directors and executive officers held 49.9% of the total shares. Chairman & CEO Zhilin Li and director Heung Mei Tsui owned 23.04% and 21.46%, respectively, of CPHI's common stock. During 2010, Anhui Fuyang Xin Te Medicine Co. accounted for 30% of CPHI's total revenue. During 1Q11, one customer accounted 21.8% of CPHI's sales. Hansen, Barnett & Maxwell have been CPHI's auditor since Aug-05. Zhilin Li has been Chairman since Apr-06 and CEO since Oct-05.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 5-Aug-10 at \$2.87
- Medium Risk - Negative Bias rating reiterated on 13-Jul-11 at \$2.40

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**China Southern Airlines Co. Ltd. (ZNH - \$31.88 Mkt Cap - \$1782 Mil) Medium Risk - Negative Bias**

From D.I. Report® of 24-May-11:

**D.I. PROFILE®** Controlled company status; one-time items; and board turnover support our opinion of a Medium Risk - Negative Bias rating for ZNH. As of Apr-11, China Southern Air Holding Company (CSAHC), an entity wholly owned by the Chinese central government, directly and indirectly owns 53.07% of the total share capital of ZNH and was entitled to exercise all the rights of a controlling shareholder, including the election of executive directors. ZNH has disclosed several transactions with CSAHC and its affiliates including property leases, advertising services, financial services, and property management services. Over the last 5 years, ZNH has recorded RMB2.2 billion in impairment charges. There have been 7 director departures including a chairman change.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 20-May-10 at \$21.24
- Medium Risk - Negative Bias rating reiterated on 24-May-11 at \$26.65

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**China TransInfo Technology Corp. (CTFO - \$3.91 Mkt Cap - \$99 Mil) Medium Risk - Negative Bias**

*Note: This is a reverse merger (2007).*

From D.I. Report® of 20-May-11:

**D.I. PROFILE®** Insider ownership; concentrated revenue; a CFO change; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating on CTFO. As of 28-Mar-11, officers and directors as a group owned 32.9% of the company's outstanding stock, including 24.7% owned by Chairman & CEO Shudong Xia. In the 10-K filed 29-Mar-11, CTFO reported that "historically, substantially all of our sales of our products have been to the Chinese government entities at both central and local levels." Roger Zhang succeeded interim CFO Danxia Huang in Jan-11.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 19-Aug-10 at \$6.81
- Medium Risk - Negative Bias rating reiterated on 20-May-11 at \$3.96

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**China-Biotics, Inc. (CHBT.PK - \$1.73 Mkt Cap - \$38 Mil) High Risk**

*Note: This is a reverse merger (2006). Trading in China-Biotics shares has been halted since June 15 in the wake of auditor concerns.*

From D.I. Report® of 26-May-11:

**D.I. PROFILE®** We are changing our rating on CHBT from Medium Risk - Negative Bias to High Risk due to a response from the SEC indicating a risk of undisclosed SEC investigative activity. Risk of undisclosed SEC investigative activity; concentrated ownership; CFO turnover; concentrated revenue; a non-top tier auditor; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating on CHBT. A response we received from the SEC to a Freedom of Information Act request indicated the risk of undisclosed SEC investigative activity as of 6-May-11. Chairman & CEO Song beneficially owned 40.9% of the company's outstanding common stock as of 1-Jan-11. There have been 5 CFOs, each of whom also served as principal accounting officer. Current CFO Travis Cai was appointed in Jan-10. One customer, Beijing DBN Technology, accounted for 13% of FY10 revenue. However, no customers accounted for more than 10% of fiscal 9M11 revenue. BDO McCabe Limited has been the auditor since May-06. Song Jinan has served as Chairman & CEO since Mar-06.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 12-Aug-10 at \$13.04
- Downgraded to High Risk on 26-May-11 at \$8.12

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**Harbin Electric, Inc. (HRBN - \$ 19.39 Mkt Cap - \$606 Mil) High Risk**

*Note: This is a reverse merger (2005).*

From D.I. Report® of 12-Apr-11:

**D.I. PROFILE®** Insider ownership; a non-binding proposal by HRBN's Chairman & CEO to take HRBN private; a non-top tier auditor; stock price volatility; ineffective internal controls; acquisition activity; related party transactions; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating for HRBN. As of Jun-10, all directors and executive officers as a group owned 35.2% of HRBN's outstanding stock. Chairman & CEO Tianfu Yang owns 31%. In Oct-10, HRBN received a proposal from Yang (along with a private equity firm) to take HRBN private for \$24 per share. In Nov-10, HRBN disclosed that the original proposal was modified as the private equity firm Yang was working with limited its potential capital contribution as disclosed in the original proposal. Also in Nov-10, the company entered into a term loan facility agreement, which limits HRBN's ability to, among other things, create liens on company assets, merge, consolidate, transfer substantially all of the company's assets, give guarantees or indemnities, and engage in any transaction that results in Yang and certain of his affiliates being the beneficial owner of less than 30% of HRBN's outstanding common stock. HRBN's auditor is Frazer Frost, LLP. There were 7 instances of stock price volatility >10% in the last year. In Mar-11, HRBN disclosed that as of 31-Dec-10, there were inherent weaknesses in internal control systems and internal controls were ineffective at HRBN's subsidiary, Xi'an Simo (a former state-owned enterprise acquired in Oct-09). HRBN completed 7 acquisitions for \$204 million, of which \$54 million was allocated to goodwill. The largest acquisition was Xi'an Simo in Oct-09 for \$112 million, of which \$42 million was allocated to goodwill. On 28-Dec-10, HRBN made an advance of \$1.5 million to an entity (Tai Fu Industrial, Co., Ltd.) owned by Chairman & CEO Yang. HRBN stated that the "purpose of the advance was to accommodate an urgent cash need of a transaction for this related entity." As of 31-Dec-10, the advance had been repaid to the company. Chairman & CEO Tianfu Yang and VP Tianli Yang are brothers. Yang has served as Chairman & CEO since May-03.

**D.I. Ratings History:**

- First rated High Risk 12-Apr-11 at \$19.62

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**JA Solar Holdings Co., Ltd. (JASO - \$5.02 Mkt Cap - \$858 Mil) High Risk**

From D.I. Report® of 18-Jul-11:

**D.I. PROFILE®** Insider ownership; related party transactions; executive suite turnover; board turnover; and one-time items support our opinion of a High Risk rating for JASO. As of 31-Mar-11, Chairman Baofang Jin beneficially owned a 22.7% stake in JASO through Jinglong Group Co., Ltd. (for which Chairman Baofang Jin is the sole director and has a 32.96% economic interest). In Jul-10, JASO acquired Shanghai Jinglong Solar Technology Co., Ltd. from Ningjin Jinglong PV Investment Co., Ltd. (a company controlled by Chairman Jin) for RMB199 million. In Jul-11, JASO announced a definitive agreement to acquire Silver Age Holdings Limited (which owns Solar Silicon Valley Electronic Science and Technology Co., Ltd.) for \$180 million. Silver Age Holdings Limited is 70% owned by Jinglong Group. JASO has long-term supply contracts with Hebei Jinglong and Solar Silicon Valley Electronic Science and Technology for silicon wafers, for which JASO made payments of RMB1.6 billion. Hebei Jinglong is 100% owned by Jinglong Group. JASO is in the process of acquiring Solar Silicon Valley Electronic Science and Technology. There have been 3 CEOs, 4 COOs, and 4 CFOs. Jian Xie has served as acting COO since Jun-09 and COO on a permanent basis since Jan-10. Peng Fang has served as CEO since Jan-10. In Jul-11, CFO Anthea Chung resigned and was replaced by Min Cao. There have been 7 director departures. Since JASO's IPO in Feb-07, the company has recorded RMB333 million in charges for inventory valuation and RMB65 million in impairments of property.

**D.I. Ratings History:**

- First rated High Risk 18-Jul-11 at \$4.60

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**LDK Solar Co. Ltd. (LDK - \$7.25 Mkt Cap - \$1086 Mil) High Risk**

From D.I. Report® of 22-Jul-11:

**D.I. PROFILE®** Insider ownership; related party transactions; concerns about its ability to continue as a going concern; one-time items; debt covenant violations; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating on LDK. As of 31-Mar-11, Officers and Directors as a group held 51.7% of the company's outstanding shares, including 48.9% held by Chairman & CEO Xiaofeng Peng. LDK engages in related party transactions with Best Solar, Saiwen Industry, and Jiangxi Liouxin Industry, three entities controlled by Peng. In 2010, the company made purchases from these entities totaling \$112 million. In the 2010 20-F, LDK disclosed that its financial position raised substantial doubt about its ability to continue as a going concern. As of the 31-Dec-10, the company had cash and cash equivalents of \$202 million and short-term borrowings and current installments of long-term borrowings of \$1.50 billion. One-time items include \$503 million in inventory write-downs. LDK disclosed in both the 2009 and 2010 20-Fs that it had not complied with its debt covenants.

**D.I. Ratings History:**

- First rated High Risk 4-Mar-10 at \$6.55
- High Risk rating reiterated on 8-Feb-11 at \$12.84
- High Risk rating reiterated on 22-Jul-11 at \$6.60

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**Longtop Financial Technologies Ltd. (LFT - \$18.93 Mkt Cap - \$1080 Mil)\* High Risk**

*\*Note: Longtop Financial went through our normal update cycle on 21-Jul-11 during which time the rating was downgraded. However, trading was halted on LFT on 16-May-11 at \$18.93. It had not resumed at the time we went to print.*

From D.I. Report® of 21-Jul-11:

**D.I. PROFILE®** We are changing our rating on LFT from Medium Risk - Positive Bias to High Risk due to departure of the CFO, a noisy auditor resignation, an internal investigation, turnover on the board, and an SEC investigation. SEC investigative activity; an internal investigation; a noisy auditor departure; turnover on the board; resignation of the CFO; insider ownership; concentrated revenue; and acquisition activity support our opinion of a High Risk rating for LFT. On 23-May-11, LFT disclosed an SEC investigation related to the departure of its auditor, CFO resignation, and issues with previously reported financial results. LFT also announced that its audit committee had retained U.S. legal counsel and authorized the retention of forensic accountants to conduct an independent investigation into the matters raised by Deloitte Touche Tohmatsu's (DTT) resignation letter. On 22-May-11, DTT resigned as LFT's auditor. In its letter, DTT stated that it was resigning as the result of, among other things: (1) the recently identified falsity of the company's financial records in relation to cash at bank and loan balances (and possibly in sales revenue); (2) the deliberate interference by certain members of LFT management in DTT's audit process; and (3) the unlawful detention of DTT's audit files. DTT further stated that DTT was no longer able to rely on management's representations in relation to prior period financial reports, that continued reliance should no longer be placed on DTT's audit reports on the previous financial statements, and DTT declined to be associated with any of the company's financial communications in 2010 and 2011. LFT indicated that it was unable to determine the full effect of these matters, including whether any restatement of its historical financial statements will be required, until the audit committee completes its review. The 3 audit committee members resigned on 1-Jul-11. There has been a total of 7 departures from the board. LFT also stated that it cannot predict when it will announce its financial results for fiscal 4Q10 or when it will file its 20-F for the fiscal year ended 31-Mar-11. On 1-Jun-11, the board accepted the resignation of LFT's CFO. As of the FY10 20-F filed 16-Jul-10, co-founder and Chairman Hiu Kung Ka independently and through his various business entities held 34% of LFT's outstanding common stock. CEO Wai Chau Lin also held 7.4%. In FY10, according to the company, 3 of the Big Four Banks in China accounted for 43% of LFT's revenue, with the largest of these Big Four Banks accounting for 22% of revenue. In the 6-K filed 1-Feb-11, LFT reported that Big Four Banks accounted for 39.5% of software development revenue through fiscal 3Q11. LFT disclosed 13 acquisitions for \$150 million, of which \$97 million was allocated to goodwill. Trading was halted on LFT on 16-May-11 at \$18.93.

**D.I. Ratings History:**

- First rated Medium Risk - Positive Bias 3-Nov-09 at \$27.37
- Medium Risk - Positive Bias rating reiterated on 17-Feb-11 at \$32.54
- Downgraded to High Risk when updated on 21-Jul-11 at last quoted price of \$18.93

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**NetEase.com, Inc. (NTES - \$49.43 Mkt Cap - \$6431 Mil) Medium Risk - Negative Bias**

From D.I. Report® of 20-Jul-11:

**D.I. PROFILE®** Concentrated ownership; related party transactions; lack of a permanent CFO; and the recent departure of both co-COOs support our opinion of a Medium Risk - Negative Bias rating on NTES. As of 31-Mar-11, CEO William Ding beneficially owned approximately 44.6% of the company's outstanding stock. Under Chinese regulations, there are restrictions on foreign investment in companies providing internet content, online games, and wireless value-added services in China. Consequently, NTES has entered into a series of contractual arrangements with entities majority owned by CEO Ding and his brother for the provision of such services. Denny Lee (CFO since Apr-02) resigned in Jun-07 for personal reasons. Onward Choi has served as acting CFO since Lee's departure. Michael Tong (COO/Co-COO since Jul-04) and Zhonghui Zhan (COO/Co-COO since May-06) resigned for personal reasons in Mar-09 and May-11, respectively.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 20-Jul-11 at \$48.82

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**Shanda Interactive Entertainment Ltd. (SNDA - \$37.04 Mkt Cap - \$2084 Mil) Medium Risk - Negative Bias**

From D.I. Report® of 22-Jul-11:

**D.I. PROFILE®** Acquisition activity; concentrated ownership; turnover on the board; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating for SNDA. SNDA has reported 35 business acquisitions and purchase of 2 minority interests. As of Mar-11, co-founder, Chairman, and CEO Tianqiao Chen (through Premium Lead Company Limited) beneficially owned 55.3% of the outstanding shares; his wife, director Qianqian Luo, owned 2.2%; his brother, co-founder, COO, and director Danian Chen, owned 1%; and co-founder and director Qunzhao Tan owned 1.3% for a total of 59.8%. The company has a small float. There have been 6 director departures. Tianqiao Chen has been Chairman & CEO since the company's inception in 1999.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 11-Aug-09 at \$49.96
- Medium Risk - Negative Bias rating last reiterated on 4-Feb-11 at \$39.74
- Medium Risk - Negative Bias rating reiterated on 22-Jul-11 at \$36.22

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**Sohu.com Inc. (SOHU - \$84.14 Mkt Cap - \$3222 Mil) Medium Risk - Positive Bias**

From D.I. Report® of 22-Jul-11:

**D.I. PROFILE®** Concentrated revenue and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Positive Bias rating for SOHU. In 2010, online gaming (through CYOU) and online advertising accounted for 53% and 35% of SOHU's revenue, respectively. During 2010, 49% of SOHU's total revenue and 91% of online game revenue was derived from a single massively multi-player online role-playing game called TLBB, which was launched in May-07. As of 31-Mar-11, SOHU holds a 67% interest in CYOU. During 1Q11, online gaming and advertising accounted for 54% and 33% of total revenue, respectively. Charles Zhang has been Chairman & CEO since 1996.

**D.I. Ratings History:**

- First rated Medium Risk - Positive Bias 4-Feb-11 at \$82.66
- Medium Risk – Positive Bias rating reiterated 22-Jul-11 at \$82.07

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**Synutra International Inc. (SYUT - \$9.00 Mkt Cap - \$516 Mil) High Risk**

*Note: This is a reverse merger (2005). Though listed as headquartered in Rockville, Maryland, this is from the Synutra 10-K dated 14-Jun-11 for the period ending 31-Mar-11:*

*"We are a leading infant formula company in China. We principally produce, market and sell our products under the "Shengyuan" or "Synutra" name, together with other complementary brands in mainland China ... We sell our products through an extensive nationwide sales and distribution network covering 30 provinces and provincial-level municipalities in China."*

From D.I. Report® of 11-May-11:

**D.I. PROFILE®** Concentrated ownership; related party transactions; a history of accounting issues; turnover in the CFO position; litigation related to a product recall; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating on SYUT. As of 4-Jan-11, founder Liang Zhang (CEO since 2000, Chairman since 2005) held 66.7% of the company's outstanding common stock. In fiscal 9M11, SYUT sold a total of \$3.1 million in products to companies controlled by CEO Zhang. In addition, in Dec-10, the company prepaid \$4.5 million to an entity controlled by Zhang for renovation work at its headquarters. SYUT has made 4 restatements, amended 15 filings, and concluded that its internal controls were ineffective from Dec-06 to Mar-09. There have been 4 CFOs, including current CFO Donghao Yang, who was appointed in May-10. The company is involved in litigation alleging negligent or intentional infliction of personal injury and other claims as a result of the company's FY09 recall of certain products for possible melamine contamination. A complaint seeking damages in the amount of \$500 million was dismissed in Mar-10. The plaintiffs have appealed. As a result of the recall, SYUT recorded \$96.6 million in charges, leading to violations of the company's debt covenants.

**D.I. Ratings History:**

- First rated High Risk 11-May-11 at \$10.95

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**UTStarcom, Inc. (UTSI - \$1.44 Mkt Cap - \$225 Mil) High Risk**

From D.I. Report® of 20-Jul-11:

**D.I. PROFILE®** Concentrated revenue; internal control issues; executive suite turnover; board turnover; one-time items; and a related party transaction support our opinion of a High Risk rating on UTSI. Entities affiliated with the Chinese government accounted for 53% and 52% of the company's net sales during 2010 and 1Q11, respectively. Softbank and affiliates accounted for 16% of net sales during 2010. Furthermore, Softbank and affiliates and Bharat Sanchar Nigam Ltd accounted for 23% and 10% respectively, of the company's net sales during 1Q11. Dating back to 2004, UTSI has since reported numerous material weaknesses in internal controls, 2 of which still remained as of 31-Mar-11. These internal control issues have led to numerous delayed and restated filings between 2006 to 2008. The delays also resulted in violation of debt agreements, for which the company later received waivers. Most recently, UTSI amended its 2010 10-K in Apr-11 and again in May-11 to clarify its disclosures on identified material weaknesses. The company has also conducted 4 internal reviews, 2 of which were with the assistance of independent legal counsel and/or forensic accountants. In its 2010 10-K/A filed 20-May-11, the company disclosed that it conducted an internal review stemming from ineffective internal controls that did not prevent its Global Treasurer from opening a bank account in the name of the company and transferring RMB150 million to the account without appropriate analysis of the business rationale and adequate authorization. The bank informed UTSI that a third party subsequently attempted to transfer RMB20 million from the account, but was refused. The company conducted an internal review, but was unable to conclude the reasons for opening the account and the subsequent transfer and attempted transfer. UTSI reported the matter to the local authorities and the Global Treasurer was terminated. There have been 3 CEOs, 4 CFOs (including an interim CFO), 2 COOs, 2 principal accounting officers, and 3 general counsels. Furthermore, there have been 7 director departures and 3 chairman changes among 2 individuals. UTSI has recorded \$93 million in restructuring charges and \$80 million in goodwill impairment charges. On 25-Jun-11, the company announced that the merger between UTStarcom, Inc. and UTStarcom Holdings Corporation and the plans to reorganize as a Cayman Islands company had been completed. UTSI disclosed that starting in Sep-09, it had entered into a consulting agreement with Yellowstone Investment Advisory Limited. William Wong, a director of UTSI, is a managing director of Yellowstone. UTSI paid Yellowstone \$235,000 for consulting services during 2010. During 1Q11, the company paid Yellowstone approximately \$1.0 million, which consisted of \$0.9 million as a success fee for acquisition support services and \$0.1 million for consulting services.

**D.I. Ratings History:**

- First rated High Risk 13-Oct-10 at \$2.39
- High Risk rating reiterated on 20-Jul-11 at \$1.43

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

**VancelInfo Technologies Inc. (VIT - \$21.05 Mkt Cap - \$938 Mil) Medium Risk - Positive Bias**

From D.I. Report® of 24-May-11:

**D.I. PROFILE®** Acquisition activity; concentrated revenue; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Positive Bias rating for VIT. VIT has completed 10 business acquisitions and acquired at least 2 minority interests since its IPO. At least 6 acquisitions involved earn-outs. Total consideration for the purchases was approximately \$25 million. Goodwill for at least 6 of the acquisitions totaled \$11 million. In 2010, Huawei and Microsoft each accounted for 10% or more of VIT's net revenue and in the aggregate accounted for 37.8% of net revenue. Chris Shuning Chen, co-founder of the company, has been Chairman since at least the IPO in Dec-07 and CEO since 1999.

**D.I. Ratings History:**

- First rated Medium Risk - Positive Bias 12-Aug-10 at \$26.30
- Medium Risk - Positive Bias rating reiterated on 24-May-11 at \$23.51

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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**Xinyuan Real Estate Company Ltd. (XIN - \$2.04 Mkt Cap - \$157 Mil) Medium Risk - Negative Bias**

From D.I. Report® of 21-Jul-11:

**D.I. PROFILE®** Concentrated ownership; lowered guidance; one-time items; executive suite turnover; a related party transaction; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating on XIN. Chairman & CEO Yong Zhang and his wife, VP and director Yuyan Yang, beneficially owned 37.3% of the company's outstanding common shares as of 31-Mar-11. In May-11, the company lowered its 2011 contract sales guidance from \$710 million to \$650 million - \$675 million due to a first quarter shortfall. One-time items include a \$55 million impairment charge in 2008. There have been 3 CFOs and 3 COOs. XIN has a consulting agreement with an entity owned by director Yong Cui. Under the agreement, the company pays RMB240,000 annually. XIN completed its IPO in Dec-07.

**D.I. Ratings History:**

- First rated Medium Risk - Negative Bias 22-Jul-10 at \$2.66
- Medium Risk - Negative Bias rating reiterated on 21-Jul-11 at \$2.02

The full D.I. Report® summarizing the 100 risk factors examined for this company as well as supporting analyst notes are available to clients at [www.disclosureinsight.com](http://www.disclosureinsight.com).

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End

## **Disclosures:**

The following are the D.I. Ratings™ we assign:

High Risk: It is our opinion that companies with a High Risk rating carry so much risk as to hold the potential to overwhelm underlying fundamentals.

Medium Risk - Negative Bias: Companies with a Medium Risk rating have at least one risk factor that concerns us. We assign a Negative Bias to the Medium Risk rating to those companies that in our opinion carry sufficient risk that the rating could deteriorate to High Risk. The Medium Risk - Negative Bias rating can also be assigned to those companies previously rated as High Risk that have shown some improvement, albeit not enough to yet warrant a lower risk rating as they could just as easily become High Risk again.

Medium Risk - Positive Bias: Companies with a Medium Risk rating have at least one risk factor that concerns us. We assign a Positive Bias to the Medium Risk rating for those companies that in our opinion carry at least one risk factor that could potentially deteriorate into a higher risk challenge. The Medium Risk - Positive Bias rating can also be assigned to those companies previously rated as carrying higher risk, but have shown sufficient improvement.

Low Risk: Companies with a Low Risk rating carry a low risk profile. In our opinion, the nature and timing of the risk factors we found do not concern us at the time of report publication.

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